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EVALUATION OF EXISTING ISSUANCE SYSTEMS IN THE FOOD STAMP PROGRAM

Volume I: Analysis By System Types

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The research reported herein was performed pursuant to contract number 53-2198-1-139 with the U.S. Department of Agriculture, Food and Nutrition Service. Birch and Davis Associates, Inc. was the prime contractor. The views and opinions stated do not necessarily represent official Department position or policy.

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EVALUATION OF EXISTING ISSUANCE SYSTEMS IN THE FOOD STAMP PROGRAM

Executive Summary

Results from a study of 30 food stamp project areas with effective issuance systems indicate that systematic implementation of a basic set of control techniques can minimize vulnerability to benefit losses without disproportionately increasing administrative costs. Further, this study concludes that a nationwide reduction in benefit losses, equal to approximately $30 million per year, can be achieved through improved food stamp issuance practices.

The study, sponsored by the Food and Nutrition Service (FNS) of the United States Department of Agriculture (USDA), had two primary objectives: (1) to identify and compare the operational and program settings characteristic of effective issuance systems; and (2) to provide benchmarks against which the administrative costs and benefit losses of existing issuance systems can be compared.

Design of food stamp issuance systems and the selection of control techniques have, historically, been left to the discretion of State and local Food Stamp Program (FSP) agencies. Using benchmarks developed in this study, State and project area administrators can determine whether their issuance systems are performing as well as systems identified as exemplary. If their systems do not compare favorably, the study results provide information that will assist administators in deciding whether to add specific controls to existing operations or to shift to a different type of issuance system. At the same time, study results will be useful to FNS officials in developing issuance policies and regulations that encourage more effective control strategies.

1. 30 LOCAL SITES WERE CHOSEN TO REPRESENT FIVE ISSUANCE SYSTEM TYPES

The study examined the five basic types of issuance systems used in the Food Stamp Program:

- **Authorization to Participate (ATP)** - In ATP systems, authorization cards are mailed directly to clients every month. Each client must present a valid ATP card and an identification card to a local coupon delivery agent in order to receive his/her benefit allotment.

- **Direct Delivery** - In Direct Delivery systems, monthly authorizations (usually ATP cards) are sent to a local coupon delivery agent. As in other over-the-counter issuance systems, clients must present an identification card and sign the authorization document to get their benefits.

- **On-Line** - On-line systems involve computerized authorization and verification. A monthly update to the central computer constitutes authorization. Clients present identification cards to a delivery agent who verifies authorization by checking the central computer file. After clients sign a register acknowledging food stamp receipt, the issuance transaction is recorded immediately on the automated master file.

- **Direct Mail** - Coupons are mailed directly to recipients in this system. Each month a data management unit prepares a list of households authorized to receive benefits by mail. Except in special circumstances when certified or registered mail is used, neither the client's signature nor identification is required.

- **Household Issuance Record (HIR)** - This is a manual approach to food stamp issuance. The authorizing document, an HIR card, provides a continuous record of all issuance transactions for an individual household through the entire period of the household's eligibility. Clients must present identification and sign the HIR card for each issuance.

A majority of food stamp project areas use a combination of systems - typically, direct mail as a secondary method to support one of the other four system types.

Data were collected for 30 local project areas judged to have exemplary issuance systems. Staff from Food and Nutrition Service headquarters and regional offices selected the study sites based on each project area's ability to promote issuance system integrity. By focusing on project areas with effective issuance systems, an inventory of "good practices" was developed for all five issuance system types.

The general approach to describing a project area's issuance system was to track both the flow of authorization information and the physical movement of coupons. This allows a detailed examination of points in the information and coupon flow that are vulnerable to benefit loss. The potential for loss occurs at points where information is transcribed or communicated from one person to another. Each potential vulnerability point was examined to determine what control techniques, if any, have been implemented by these project areas to avoid or reduce benefit losses.

Concurrently, the administrative costs and benefit losses associated with each project area's issuance system were determined. Benefit loss data were abstracted from routine reports to FNS between April, 1982 and March, 1983. This information was then augmented and validated through on-site interviews with FSP staff and an examination of source documents. While the primary focus was on the total administrative cost of issuance, a detailed cost analysis was carried out to ensure that project area totals are made up of comparable cost elements.

2. IMPLEMENTATION OF A SET OF EFFECTIVE ISSUANCE PRACTICES APPEARS TO REDUCE BENEFIT LOSSES WITHIN EACH SYSTEM TYPE

The table below compares the benefit loss in study sites to national data for the period April, 1982 through March, 1983. These figures show that for each issuance system type, study sites reported losses lower than the comparable national average. The control practices associated with lower issuance loss are summarized in the following paragraphs.

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LOSS COMPARISONS BETWEEN GOOD PRACTICE SITES AND THE NATIONAL FOOD STAMP PROGRAM

April, 1982 - March, 1983

Primary System Type	Number of Study Sites	Loss Performance Measures: Inventory Loss per Household	ATP Loss per Transaction	Mail Loss per Issuance
ATP	10	$.01	$.13	$.24*
Dir. Delivery	4	.03	.11	.22*
On-line	5	.02	N/R	.30*
Direct Mail	8	< .01	N/A	.61
HIR	3	< .01	N/A	.34*
National Average		$.05	$.43	$.75

* Mail used as a secondary method of benefit delivery

N/R Unmatched authorizations are not routinely reported in On-line systems

N/A Not applicable to system type

Inventory loss, which is caused by cashier errors during benefit delivery and thefts from coupon supplies, has been minimized by good practice sites through (1) strict adherence to FNS regulations concerning the receipt, transfer and disbursement of food coupons; (2) installation of a variety of security devices and procedures; and (3) implementation of redundant cashier practices and staggered delivery.

It is evident from the data above that there is little variation in inventory loss across system types. Furthermore, all system types, as represented by the study sites, control inventory loss through a common set of practices. These controls and their use by issuance system type are detailed in Exhibit A.

Issuance loss in ATP systems can also occur as a result of duplicate participation by an authorized client, negotiation of a valid ATP card by an unauthorized individual, or less frequently, transaction of an invalid ATP card. Procedures used routinely by effective ATP systems include: (1) timely processing of household eligibility data; (2) verification

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EXHIBIT A

GUIDE TO ISSUANCE CONTROLS BY SYSTEM TYPE

KEY

- ○ Practice Not Used
- ◎ Practice Used By A Few Project Areas
- ◉ Practice Used By Most Project Areas
- ● Practice Used By All Project Areas

VULNERABILITY	ISSUANCE SYSTEM PRACTICES/CONTROLS	SYSTEM TYPE				
		MTP	DIRECT DELIVERY	ON-LINE	DIRECT MAIL	MIX
Delayed Processing Of Household Eligibility Data	One Day Turnaround Of Notification Data	●	●	●	◉	●
	Batch Control System For Notification Data	●	●	●	●	●
	Separate Clerical Control Unit	◎	○	◎	○	○
	Processing Deadlines/Production Cutoff Date	●	●	●	●	●
	Procedure For Last Minute Case Changes	●	●	●	●	●
	Elimination Of Processing Backlogs	●	●	●	●	●
	Prioritization Of Processing Case Updates	●	●	●	●	●
	On-Line File Updates	○	○	●	◉	○
Inaccurate Or Incomplete Processing Of Household Eligibility Data	Specification Edits Computerized	●	●	●	●	○
	Logical Edits Computerized	●	●	●	●	○
	Automated Benefit Calculation	●	●	●	●	○
	Automated Benefit Verification	●	●	●	●	○
	Access To Household Master File Restricted	●	●	●	●	●
Loss Or Theft Of Authorization Documents	MTPs Handled As Controlled Documents	●	●	○	○	○
	Limited Access To Blank MTPs	●	●	○	○	○
	Serialized ID Number On MTP Cards	◎	◎	○	○	○
	Computer Controlled Replacements	◎	◎	○	○	○

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VULNERABILITY	ISSUANCE SYSTEM PRACTICES/CONTROLS	SYSTEM TYPE				
		ATP	DIRECT DELIVERY	ON-LINE	DIRECT MAIL	MIR
Loss Or Theft Of Authorization Documents (Continued)	Limit Of 2 Replacements Within 6 Months	●	●	○	○	○
	Replacement Waiting Period Of 5 Days (Minimum)	●	●	○	○	○
	Affidavit Signed By Client For Replacement	●	●	○	○	○
	Delivery Of Replacements Only By Direct Methods	◉	●	○	○	○
	Direct Delivery Of ATPs By Issuance Staff Or Vendors	○	●	○	○	○
	Assignment Of Issuance Location	○	●	○	○	◉
	Electronic (On-Line) Authorization	○	○	●	○	○
	Back-Up Computer System To Eliminate Down Time	○	○	◉	○	○
	Restricted Issuance Procedures During Down Time	○	○	●	○	○
	Verification Of Eligibility Listings To ATPs	●	●	○	○	○
	Post-Verification (Prior To ATP Mailing/Delivery)	◉	●	○	○	○
	Limited Access To MIR Cards	○	○	○	○	●
	MIR Cross Reference File	○	○	○	○	●
	Documented Status Changes	○	○	○	○	●
	Separation Of OTC And Mail MIR Cards	○	○	○	○	●
Client Misrepresentation/ Fraud Resulting In Overissuance	Charge Back Policy (Vendors/Cashiers Liable)	◉	●	○	○	○
	PSF Issuance Monitor Function	●	●	○	○	○
	Signature Comparison	●	●	●	○	●

VULNERABILITY	ISSUANCE SYSTEM PRACTICES/CONTROLS	SYSTEM TYPE				
		ATP	DIRECT DELIVERY	ON-LINE	DIRECT MAIL	MIR
Client Misrepresentation/ Fraud Resulting In Overissuance (Continued)	Photo ID	●	●	◉	○	○
	Predesignated Authorized Representative	●	●	●	○	●
	Use Of Reissuance Camera	◉	○	○	○	○
	Address Verification (From Master File)	○	○	◉	○	○
Cashier Error Resulting In Overissuance	Double Cancelling Of Coupons	●	●	●	●	●
	Dual Verification Of Mail Allotments	○	●	●	●	●
	Pre-Benefit Transfer Coupon Book Separation	●	●	●	●	●
	Staggered Issuance	●	●	●	●	●
	Dual Name/ID Number Comparison	●	●	●	○	●
	Pre-Printed Coupon Book Combinations By Allotment	●	●	●	●	●
	Standardized Allotment Ranges By Household Size	◉	○	○	○	○
	Cashier Training Program	◉	○	○	○	○
	Pre-Packaged Allotments	○	◉	○	○	○
	Automated Coupon Stuffing	○	◉	○	◉	○
Loss Or Theft Of Mail Issuance Allotments	Pre-Sorted/Sealed First Class Mail (Routine Delivery)	◉	◉	◉	●	○
	Certified Mail Used (Alternate Delivery)	◉	◉	◉	●	○
	Registered Mail Used (Alternate Delivery)	○	○	○	◉	○
	Mail Restricted To Special Client Populations	●	◉	●	○	○

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EXHIBIT A

VULNERABILITY	ISSUANCE SYSTEM PRACTICES/CONTROLS	SYSTEM TYPE				
		APP	DIRECT DELIVERY	ON-LINE	DIRECT MAIL	MIR
Loss Or Theft Of Mail Issuance Allotments (Continued)	_ Dollar Value Restriction	○	○	◎	○	◎
	_ Mail Issuance Interview (At Certification)	◎	◎	◎	◎	◎
	_ Alternate Delivery After One Loss	●	●	●	●	●
	_ Limit Of 2 Replacements Within 6 Months	●	●	●	●	●
	_ Replacement Waiting Period Of 5 Days (Minimum)	●	●	●	●	●
	_ Affidavit Signed By Client For Replacement	●	●	●	●	●
	_ Delivery Of Replacements Only By Direct Methods	●	●	●	●	◎
	_ Analysis Of Mail Loss And Returns	●	●	●	●	●
	_ Close Coordination With Postal Officials	●	●	●	●	●
Theft From Coupon Storage Or Working Inventory	_ Off-Site Bulk Storage	◎	○	○	○	●
	_ Limited Access/Dual Verification	●	●	●	●	●
	_ Security Alarm System	●	●	●	●	◎
	_ Separate Working Inventories By Cashier	●	●	●	●	●
	_ Security Escorts During Coupon Transfer	●	●	●	●	●
	_ Security Guards On-Site	◎	●	●	●	◎
	_ Combination Lock Safes	●	●	●	●	●
	_ Restricted Access To Issuance Areas	●	●	●	●	●
Delayed Or Incomplete Reconciliation Of Issuances	_ Monthly Reconciliation Of Issuances To Master File	●	●	○	●	○
	_ Follow-Up On Reconciliation Exceptions	●	●	●	○	○
	_ Immediate (On-Line) Update Of Master File	○	○	●	○	○

of eligibility data through a variety of computerized edits; and (3) vigorous verification of a client's identity at the coupon delivery point. Additional control techniques have been implemented by some ATP study sites, and these are described in Exhibit A.

In **direct delivery** systems, issuance loss (other than an inventory shortage) is typically tied to manual ATP replacements. When replacements are prepared manually, errors are more likely to occur. Discrepancies between ATP cards and the authorization file show up initially as loss. The benefit loss associated with these errors may or may not be recovered, and in every case the recovery efforts will involve some administrative expense. Computer generation of both original and replacement ATP cards minimizes this kind of error and the associated costs.

Direct mail loss is controlled by securing coupon delivery to both the postal service and clients. Among good practice sites, this usually involves: (1) the use of pre-sorted and sealed first class mail for routine delivery; (2) analysis of mail loss and returns; and (3) limiting replacement delivery to over-the counter transfer. In project areas that use direct mail as a secondary method of delivery, losses are smaller because these sites mail selectively to lower-risk households. Controls used by effective primary and secondary mail issuance systems are elaborated in Exhibit A.

On-line issuance loss is typically confined to unauthorized issuance during computer downtime, or in some places, a lost or stolen transaction card that's used to get benefits before a hold is placed on the on-line authorization file. The most effective controls for these vulnerabilities include restrictions on benefit delivery during computer downtime and the use of photo identification. A more complete list of controls used by on-line study sites is included in Exhibit A.

The largest potential for loss in an **HIR** system is related to manual information processing. Such procedures are relatively slow and inaccurate. Effective HIR systems have improved system timeliness by monitoring and enforcing deadlines, such as turnaround time for notification data processing and cutoff dates for file updating. Accuracy is promoted by duplicating functions that are most vulnerable to human error, such as calculating benefit amounts, posting notification data on HIR cards and converting allotment values to coupon book combinations. The control techniques used by effective HIR systems are elaborated in Exhibit A.

3. HIR, DIRECT DELIVERY, AND ON-LINE SYSTEMS HAVE INHERENT ADVANTAGES

Major vulnerabilities to loss occur when ATP cards or coupons are mailed to recipients. These are eliminated in systems which keep authorization documents at issuance points and deliver coupons to recipients in person. Although there are no routinely reported data on discrepancies between benefits authorized and delivered in the three system types with both characteristics -- HIR, direct delivery and on-line -- each provides greater physical control over authorization documents and coupons.

HIR systems use a permanent authorization and issuance record document that is kept in the local FSP office and thus is not exposed to external loss. Because recipients must come to a central office, however, this system type is most suitable in project areas that have relatively small client populations and are geographically compact. This reduces the risk of fraud even further in that issuance workers are likely to know and recognize recipients on an individual basis.

Direct delivery systems transfer monthly authorization documents to issuance locations rather than to individual clients' home addresses. This facilitates much tighter physical security in the authorization and transfer processes. The limited data that are available indicate that direct delivery systems control loss due to unauthorized issuance more effectively than ATP or direct mail systems.

On-line systems eliminate the use of paper authorization documents altogether. Concomitantly, this eliminates the risk of losing paper documents, limits the opportunity to alter authorization records fraudulently, and facilitates rapid updating of the authorization file. Issuance loss associated with unauthorized participation is $.02 per household in the one on-line study site reporting during the project period. This is significantly less than unit losses for ATP and direct mail systems.

4. DIFFERENCES IN THE ADMINISTRATIVE COST OF ISSUANCE OPERATION ACROSS SYSTEM TYPES ARE NOT STATISTICALLY SIGNIFICANT

The administrative costs of issuance are defined to include: (1) salaries and fringe benefits of FSP staff responsible for issuance activities: (2) automated data processing costs associated with the FSP master file; (3) fees paid to contract issuance agents; and

(4) miscellaneous direct costs, such as, postage, transportation, and security. In the table below, average administrative costs for issuance in the good practice sites are presented by primary system type and overall.

ADMINISTRATIVE COSTS OF ISSUANCE FOR GOOD PRACTICE SITES
April, 1982 - March, 1983

Primary System Type	Number of Study Sites	Administrative Cost per Household
ATP	10	$1.70
Direct Delivery	4	1.49
On-line	5	1.91
Direct Mail	8	1.64
HIR	3	1.66
Overall Weighted Average	30	$1.63

Many observers of the FSP have the impression that direct mail systems are relatively low cost operations because they use less direct labor and computer support. Detailed analysis of effective direct mail sites indicates, however, that their labor and computer support requirements are not substantially lower than those of the other system types and that the small savings that may be realized in those components are offset by higher postage. Thus, the total administrative costs of direct mail study sites are not significantly different from the overall average.

Direct delivery project areas have the lowest administrative costs among the 30 study sites. The absence of postage costs for ATP delivery to clients accounts for some of this difference. However, the small number of direct delivery sites and the variability among them limit the validity of this estimate.

On-line project areas have the highest administrative costs. ADP operating costs appear to be a substantial factor. As with direct delivery sites, however, the usefulness of this estimate for making national projections is limited. High administrative costs for on-line

issuance may be attributed as much to the idiosyncratic conditions of the on-line study sites as to inherently greater resource requirements.

5. THERE ARE SEVERAL OPTIONS FOR IMPROVING FOOD STAMP ISSUANCE

Direct delivery and on-line systems have the capacity to perform well in a variety of settings. Adoption of either approach should be considered where a State or local FSP agency has the resources necessary for conversion. The requirements for implementing an on-line system are particularly sensitive to the existing computer environment. In highly automated situations, the incremental resources that are required may not be large, but in a relatively unsophisticated environment, start-up costs may be prohibitive.

When conversion to a direct delivery or on-line system is not feasible, adoption of practices described earlier may yield measurable improvements in ATP and direct mail systems. Exhibit A provides a guide to the frequency with which various controls are used in each system type. Those strategies used across types have not only the broadest applicability, but the most promise for success. Similarly, within any one system category the more frequently a control is used, the more likely it is to be a pre-requisite for effective issuance.

It is important to realize that implementation of a new control does not guarantee a reduction in issuance loss for a specific project area. The effectiveness of any control strategy will depend on the environment in which it is implemented and some local fine tuning. The final report provides detail on how and where each control is practiced through a comparative analysis of system types (Volume I) and a set of individual case studies (Volume II).

6. THE POTENTIAL FOR REDUCING ISSUANCE LOSS IS SUBSTANTIAL

Although it is not possible to project the maximum savings that might be realized through system improvements in all project areas, a rough estimate can be made. That estimate is based on the dollar value of benefits saved if the average inventory, ATP, and mail losses of all project areas were reduced to the level of "good performers" observed in this study. The potential national savings is on the order of $30 million per year.

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CHAPTER ONE

INTRODUCTION

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I. INTRODUCTION

1. BACKGROUND AND LEGISLATIVE CIRCUMSTANCES RELATED TO THIS STUDY

The Food Stamp Program (FSP) has been a focus of both Congressional and Departmental efforts to address the Administration's overall goals of increasing operational efficiency and eliminating waste, fraud, and abuse in public programs. To this end, the U.S. Department of Agriculture (USDA) has increased attention to the administrative costs and vulnerabilities associated with the physical issuance of food stamp coupons.

This report presents findings of a study of existing issuance systems in the Food Stamp Program, sponsored by the Food and Nutrition Service (FNS) of the USDA. The two primary objectives of the study are:

- To identify and compare the operational procedures and program settings characteristic of effective issuance systems
- To provide benchmarks against which the administrative costs and benefit losses of existing issuance systems can be compared

The issuance process is described first to provide the programmatic context for this study. Subsequent sections discuss administrative costs and benefit losses associated with issuance, and the relationship between this study and other efforts to improve food stamp issuance.

(1) The Issuance Process And Issuance System Types

Issuance is the process by which FSP benefits are delivered to households certified to be eligible for those benefits. Specifically, issuance includes a set of activities that begin after certification that a household is eligible for a specified dollar amount of food stamps and continues through the actual delivery of the food stamps to a legitimate representative of the household.

- **Verification** of client identity by the Delivery Unit staff member at the point of benefit transfer

- **Transfer** of benefits from the Delivery Unit to the client

Supporting these activities are two auxiliary issuance activities:

- **Inventory maintenance** of coupons and controlled issuance documents (e.g., food stamp authorization forms)

- **Reconciliation** of (1) actual issuance (coupon inventory) to documented issuance (e.g. ATP card), and (2) documented issuance to authorized issuance (FSP master file)

These activities are currently carried out through several types of issuance systems. In 12 States the choice of system type is made at the project area level (typically equivalent to a county decision), while in most others it is made at the State administrative level. Even under State administration, issuance methods may vary considerably among counties and sometimes within counties. Five major types of issuance systems may be distinguished on the basis of differences in performing the activities described above.

- **Authorization-To-Participate (ATP)**—In ATP systems, authorizing documents (ATP cards) are generated each month, usually by computer but sometimes manually, and are mailed directly to clients. Each client then presents both the ATP card and an identification card to a Delivery Unit in the project area. The Delivery Unit is usually not a Food Stamp Office but rather a bank, post office, or other organization contracted to perform this activity. After the identification card is checked, the client signs the ATP card and exchanges it for food stamps.

- **Direct Delivery**—In Direct Delivery systems, monthly authorizations (usually ATPs) are prepared and sent to a Delivery Unit, which may be the FSP Office or a contractor's office. As in other over-the-counter system types, clients must present an identification card and sign the authorization document.

- **On-Line**—On-Line issuance systems are computerized systems in which clients present identification cards to the Delivery Unit, and the Delivery Unit staff verifies authorization by checking a central computer file. Monthly updating of the central computer file constitutes authorization. After clients sign a register acknowledging food stamp receipt, the issuance transaction is recorded immediately in the computerized food stamp master file.

- **Direct Mail**—In Direct Mail systems, food stamps are mailed directly to the client. Each month, the Data Management Unit prepares a list of households authorized to receive food stamp benefits by mail. This list serves as the authorizing document. In most cases, neither the client's signature nor identification is required to receive the food stamps. In some cases

where benefit losses have been unacceptably high, however, food stamps are sent via certified mail or registered mail; in these cases, a signature is required but identification typically is not requested.

- A Regular Mail system, typically used as an alternate method of delivery in ATP project areas, requires that an intermediate authorization document be signed by the client prior to the delivery of a mail issuance allotment. In these mixed ATP project areas, eligible households have the option of either redeeming ATP cards in person at a Delivery Unit, or mailing the ATP cards (appropriately signed and dated) to the Delivery Unit. The Delivery Unit mails benefits to clients using signed ATP cards as the mail authorization documents.

- **Household Issuance Record (HIR)**—The HIR system is a manual approach to food stamp issuance in which the authorizing document, the HIR card, is maintained at the Delivery Unit. The HIR card provides a continuous record of all issuance transactions for an individual household throughout the entire period of the household's eligibility. The client obtains food stamps directly from the FSP Office (the Delivery Unit) by presenting an identification card, which the Delivery Unit staff member checks. The client is required to sign the HIR card for each issuance.

(2) Administrative Costs And Benefit Losses Associated With Issuance

In general, the issuance of food stamp benefits is costly to administer and vulnerable to loss. For the 12 months corresponding to the study period, April 1982 to March 1983, the administrative costs of issuance nationwide reported on the SF 269 were $236.6 million.* Total issuance losses reported during the same 12 months on FNS forms 46, 250, and 259 were $49.9 million. This represents 0.5 percent of the benefits issued.

(3) Efforts To Reduce Administrative Costs And Benefit Losses

As discussed earlier, activity that is directed specifically toward improving the efficiency and integrity of food stamp issuance has increased most notably with the Food Stamp and Commodity Distribution Amendments of 1981 and the Food Stamp Act Amendments of 1982. Since then, a number of initiatives have focused on this area.

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* This figure actually underestimates the administrative costs of issuance since it does not include FNS Regional Office costs or most of the administrative costs of the Federal Government. Furthermore, the State-reported costs on which this estimate is based do not fully represent the direct or indirect costs of issuance.

A 1982 report from the General Accounting Office (GAO) to the Secretary of Agriculture recommended several measures to improve ATP issuance systems. The GAO recommendations most relevant to this study are to:

- Identify the most effective ATP loss prevention elements and direct that they be used, when appropriate, in future program operations
- Review ATP replacement regulations to determine target areas for more vigorous system controls
- Verify and review State and local reconciliation report data to identify recurring duplicate ATP transactions, and then require that agencies correct flaws that promote loss through such duplications

Operation Awareness is one of several relevant FNS activities. This effort includes an FNS-directed information network designed to facilitate the exchange of loss reduction strategies among State agencies. Through initiatives like Operation Awareness, State agencies are encouraged to pursue a variety of non-regulatory approaches designed to minimize FSP vulnerabilities.

Current federal regulations specify a variety of practices that address basic issuance risks. These include but are not limited to: time frames for updating case changes, procedures for handling ATP and benefit replacements, and requirements for household verification. Recent regulatory action calls for (1) the establishment of loss tolerance standards for mail issuance that are tied to State liabilities, and (2) the standardization of reconciliation reports across different issuance systems.

The objectives of this study are clearly consonant with the recommendations and initiatives described above. For example, the study objectives call for detailed and comparable descriptions of effective issuance practices. Such information provides the basis for an inventory of loss control strategies that are applicable to the range of issuance systems and settings. Similarly, the development of loss and administrative cost benchmarks for effective issuance systems offer FSP administrators at all levels a basis for comparing different approaches and the performance of a specific State or local system.

2. EXTANT DATA DO NOT SUPPORT DETAILED, SYSTEMATIC COMPARISONS OF DIFFERENT ISSUANCE SYSTEMS

Existing data on issuance system characteristics and performance do not meet the objectives of this study. With respect to descriptive data, for example, there are no reliable statistics on the current distribution of the various system types among the roughly 3,000 FSP project areas in the United States. Even less is known about techniques used by these project areas to reduce administrative costs and benefit losses because the existing body of knowledge is based largely on isolated self-reports.

A limited body of performance data can be assembled from occasional audits conducted by GAO or the USDA Office of the Inspector General. However, these audits usually pertain to a few, mostly atypical project area. Somewhat more information can be extracted from the series of routine reports made by State agencies to FNS. However, because these reports were developed for other purposes, each has some inherent shortcomings with regard to issuance system evaluation. The principal reports and their limitations are:

- **SF 269 (Quarterly Financial Status Report)**—This form is designed to report State administrative costs for accounting purposes. The data it contains are inadequate for this study since they are aggregated at the State level and thus obscure variations within a State due to local differences in the choice of issuance systems and operational efficiency. While the form includes a separate category for issuance costs, it is typically used only to report some FSP staff labor and payments to issuance contractors. Depending on the kind(s) of issuance system(s) operating in a State, reported costs may be either a small or large portion of the total cost of issuance. Other issuance expenses (e.g., computer support, overhead) are reported but not identified in one of the remaining ten cost centers. Thus, the SF 269 was neither intended nor constructed to support a cost analysis of FSP functions.

- **FNS 250 (Monthly Food Stamp Accountability Report)**—This form is submitted by States for each reporting point (which may or may not correspond to a project area). It documents the reconciliation of benefit delivery records to the physical inventory of coupons. Any discrepancy (reported on line 23) is considered to be an inventory loss. Information is also provided on the total dollar value of mail issuance replacements. While the FNS 250 contains data on the amount of inventory loss, it does not routinely indicate where and how the loss occurred, e.g., whether it was from a bulk storage site, from a local delivery point, or due to clerical error.

- **FNS 46 (Monthly ATP Reconciliation Report)**—This form is submitted by a designated reconciliation point that may or may not correspond to a project area. It contains data on the number and dollar value of total, replacement, and unmatched ATPs that have been transacted. Initial visits to pilot sites for this study suggest that there is an inconsistent interpretation of what should be reported in a few categories on this relatively complex form.

- **FNS 259 (Quarterly Food Stamp Mail Issuance Report)**—This form is submitted by each project area. It breaks out data for each of the three preceding months with respect to the number and dollar value of mail issuances and the number and dollar value of mail replacements. Until recently and through the 12-month study period, these data have been an inaccurate measure of loss. This is because all replacements have been treated as duplicates, and the gross figures have not consistently been adjusted for returns.

Given these limitations of the available information, a new data collection effort was needed and consequently developed to address the objectives of this study.

3. THIRTY LOCAL PROJECT AREAS IDENTIFIED AS "GOOD PERFORMERS" WERE SELECTED FOR ANALYSIS

There are approximately 3,000 FSP project areas. It was necessary, however, to sample a much smaller number due to the substantial amount of information needed, the concomitant effort required, and the finite resources available for the study. Because the focus of the evaluation is to identify issuance methods associated with minimizing benefit losses and administrative costs, a sampling plan was developed to select 30 local project areas considered to operate effective and efficient issuance systems.

As there are no data that systematically compare the operational effectiveness of all project areas, FSP staff from FNS headquarters and regional offices were asked to nominate candidates for the study sample. First, each of the Agency's seven regional offices was asked to nominate up to eight project areas. They were asked to consider four effectiveness criteria in making nominations:

- **Consistently Low Levels Of Issuance Loss**—The project area should have experienced little or no issuance loss during the preceding six months. This should be reflected in loss figures reported to FNS.

- **Operating Procedures**—The project area should use issuance procedures known to be effective in reducing the vulnerability and promoting the integrity of its issuance system. In addition, issuance system operating policies and procedures should be clearly stated and well-documented in an issuance manual.

- **Administrative Efficiency**—The project area should carry out FSP functions in general, and the issuance process in particular, in a timely, responsive manner, and with a minimum of unnecessary cost and effort. The emphasis is on "unnecessary" because nominated project areas may operate expensive programs and still be efficient.

- **Environmental/Operating Challenges**—The project area should operate effectively and efficiently in the context of challenges and threats to its issuance system. This is in contrast to project areas that operate well but, to begin with, face no significant problems.

In addition to possessing these four effectiveness features, nominated project areas were to meet two additional criteria. These were:

- **Issuance System Stability**—The project area's basic method of issuance should not have been altered significantly within the last six months (e.g., changed from one of the five basic system types to another).

- **Project Area Cooperativeness**—The project area should be willing to participate in the study and to cooperate with the study team during pre-visit and on-site data collection activities.

Finally, FNS regional office staff were asked to nominate, insofar as possible, at least one project area for each system type.

In the second stage of the sample selection, the contractor selected a preliminary set of sites from those nominated. Sites were chosen to approximate the distribution of system types and geographic locations in the overall population. The final selection was made with the participation of the FNS Project Officer and several staff from the FNS Family Nutrition Programs.

Exhibit I-1 lists the sites chosen from each of the seven FNS regions. With three exceptions, the primary issuance system identified for each project area accounts for 50 percent or more of the average monthly value of issuance. Two of these exceptions are due to a change in system type during the study period. The third occurs because of a unique combination of system features that cannot be neatly categorized. Each of these cases is described in more detail in the appropriate issuance system chapter.

Collectively, the project areas selected are, in fact, good performers. Sample site averages are lower than comparable national statistics reported for inventory, ATP, and mail losses. In addition, several sites employ unique approaches to food stamp issuance that were developed specifically to minimize issuance losses without increasing FSP costs. Information on individual project areas and system type averages is presented in the following chapters.

The distribution of system types is summarized below. Approximately two-thirds of the study sites operate more than one issuance system. These project areas are identified as mixed systems. More details on the particular combinations represented by mixed systems and on their performance compared to single systems are provided later in the report.

Distribution Of Project Areas By Type Of Issuance System

Primary Issuance System	Number of Single Systems	Number of Mixed Systems
ATP	3	7
Direct Delivery	0	4
On-Line	2	3
Direct Mail	5	3
HIR	0	3

4. DATA COLLECTION PROCEDURES

For each of the 30 project areas chosen, three sets of data were collected: issuance system descriptions, reported benefit dollar losses, and administrative cost figures for issuance. These data were obtained through a combination of personal interviews with State and local FSP staff, data abstraction from extant records, and observations of issuance operations and facilities. A more detailed description of these measures and activities follows.

(1) Issuance Systems Were Described With Special Attention To Vulnerability Control

The general approach to describing issuance systems was to track the flow of information across different FSP units from notification through reconciliation, as well as the physical movement of coupons from inventory sites to

EXHIBIT I-1(1)

STUDY SITES

FNS REGION	PROJECT AREA	ISSUANCE SYSTEM	
		PRIMARY	SECONDARY
Mid-Atlantic	Mercer County, New Jersey	ATP	-
	Allegheny County, Pennsylvania	Direct Delivery	ATP
	Philadelphia County, Pennsylvania	Direct Delivery	ATP
	Augusta County, Virginia	Direct Mail	-
	Pittsylvania County, Virginia	HIR	-
Mountain Plains	Shawnee County, Kansas	Direct Mail	-
	Lancaster County, Nebraska	HIR	Direct Mail
Midwest	Marion County, Indiana	ATP	Regular Mail
	Hamilton County, Ohio	ATP	Direct Mail
	Cook County, Illinois	Direct Delivery	Direct Mail
	Wayne County, Michigan	On-Line	-
	Outagamie County, Wisconsin	Direct Mail	-
Northeast	Torrington County, Connecticut	ATP	-
	Franklin County, New York	ATP	Direct Mail
	New York City, New York	On-Line	-
	Kennebec County, Maine	Direct Mail	-
Southeast	Lexington County, South Carolina	ATP	Regular Mail
	Fayette County, Kentucky	Direct Delivery	Direct Mail
	Duval County, Florida	On-Line	Direct Mail
	Elmore County, Alabama	Direct Mail	On-Line
	Calhoun County, Mississippi	HIR	Direct Mail

EXHIBIT I-1(2)

FNS REGION	PROJECT AREA	ISSUANCE SYSTEM	
		PRIMARY	SECONDARY
Southwest	Orleans Parish, Louisiana	ATP	-
	Comanche County, Oklahoma	ATP	Direct Mail
	Harris County, Texas	ATP	Direct Mail
	Bernalillo County, New Mexico	On-Line	Direct Mail
	Dona Ana County, New Mexico	On-Line	Direct Mail
Western	San Bernardino County, California	ATP	Regular Mail
	Maricopa County, Arizona	Direct Mail	-
	San Joaquin County, California	Direct Mail	ATP
	Ada County, Idaho	Direct Mail	ATP

recipients. It should be clear that at each point where information about household eligibility or allotment level is communicated, there is a potential for loss due to fraud or error. Similarly, the actual movement of coupons from one place to another is a source of issuance vulnerability. Given this model, eight generic vulnerabilities were identified that subsequently guided the collection of data on issuance system controls:

- **Delayed Processing of Household Eligibility Data** is most likely to occur during notification. Excessive delays may result in the issuance of benefits in excess of authorized levels. For example, an unprocessed change in household income could result in either an under- or over-issuance.

- **Inaccurate or Incomplete Processing of Household Eligibility Data** typically occurs during notification and increases the probability of an error in the authorized allotment. For example, a manually calculated benefit allotment that is not verified by a computer program could result in an inaccurate benefit allotment. While errors such as this can be corrected retroactively, they reduce an agency's ability to provide timely and accurate estimates of actual benefit losses.

- **Loss or Theft of Authorization Documents** is related to authorization procedures and general inventory controls. Loss of these documents increases the possibility of duplicate or unauthorized issuances.

- **Client Misrepresentation or Fraud at the Benefit Delivery Point** is a vulnerability associated with verification in all issuance systems delivering coupons over-the-counter.

- **Cashier Error Resulting in Overissuance** occurs during benefit delivery when coupons are counted or transferred to recipients. In many instances, errors are caused either by cashiers misreading the benefit allotment amount or coupon books sticking together.

- **Loss or Theft of Mail Issuance Allotments** may occur at any point in the delivery phase of mail systems. For example, such systems risk loss if inaccurate or incomplete address information is contained in the household's master file record.

- **Coupon Theft from Inventories** is a function of both inventory maintenance procedures in place to monitor bulk, daily, and working coupon inventories, and the methods used to transport coupons between storage points and issuance sites.

- **Delayed or Incomplete Reconciliation of Issuances** limits the ability of an issuance system to identify and recover unauthorized issuances as well as to prevent them.

The data collection focused on identifying control strategies used by project areas to avoid or minimize losses that are associated with these vulnerabilities. The study team used a questionnaire covering the four primary and two auxiliary issuance activities. It contained a set of question modules that were ordered to correspond to the typical sequence of issuance activities. The instrument was completed by initially reviewing State and, where available, local issuance manuals and then validating these system descriptions on-site by: (1) interviewing FSP issuance, certification, and DMU staff. and

projected from a three-month listing of unmatched cases in the project area. For the other, a county estimate based on State losses was used. This appears to be a valid estimate given the available information on losses charged to the local agent. In both cases, FSP agency staff concurred with the estimated values reported.

Inconsistencies in reported FNS 46 data were corrected based on examination of source documents used to prepare the report. These corrections were agreed to by FSP staff. The most commonly found inconsistency was that, when aggregated, categorical ATP unmatched transactions (reported on lines 11 through 19 of the FNS 46) did not equal the total value of unmatched transactions reported on line 10 of the same form.

Because only one FNS 46 is submitted by sites operating mixed ATP/Direct Delivery systems, it was not possible to differentiate loss levels between the two delivery methods. This limitation prevented development of accurate loss estimates in two Direct Delivery sites.

On-Line project areas are not typically required to report on on-line issuance activity. However, on-line issuance activity was reported on the FNS 46 by one of the study sites. Data from this report were used to estimate losses resulting from unmatched on-line transactions.

- Duplicate mail issuances are reported by project area on the FNS 259. For most project areas, the number and value of mail replacements are adjusted by the number of corresponding original allotments that get returned to the FSP office. Adjustments were made to reports from the two project areas that do not follow this practice.

- HIR project areas are required on a semi-annual basis to conduct an audit of documented transactions as shown on HIR cards to authorization records (i.e., case records). This audit of 20 percent of the active case records reveals discrepancies resulting in unauthorized issuance. None of the HIR sites studied reported any discrepancies between documented and authorized levels.

After these FNS report elements were generated for project areas in the study, a number of unit loss statistics were computed. These are summarized in Exhibit I-2.

Benefit loss indicators were selected to compare categorical and total unit losses across and within system types. To compare across system types, however, required the use of a denominator common to all system types. This common denominator is the "number of participating households", which is reported monthly on the FNS 256, Report of Project Area Participation and Coupon Issuances. The number cannot be disaggregated by issuance

EXHIBIT I-2

INDICATORS/LOSS MEASURES BY SYSTEM TYPE

PRIMARY INDICATOR	LOSS MEASURE (DATA SOURCE)	APPLICABILITY TO SYSTEM TYPES				
		ATP	DIRECT DELIVERY	ON-LINE	DIRECT MAIL	HIR
Inventory Loss Per Household	FNS 250, Line 23, Total Value Of Issuance Difference ÷ FNS 256, Total Number Of Participating Households	X	X	X	X	X
Mail Loss Per Household*	FNS 259, Column 7e, Value Of Replacements ÷ FNS 256, Total Number Of Participating Households				X	
ATP Loss Per Household	FNS 46, Line 10, Value Of Unmatched ATPs ÷ FNS 256, Total Number Of Participating Households	X	X			
Total Loss Per Household	FNS 250, Line 23 And FNS 259, Column 7e And FNS 46, Line 10 (As Applicable) ÷ FNS 256, Total Number Of Participating Households	X	X	X	X	X
Mail Loss Per Mail Issuance*	FNS 259, Column 7e, Value Of Replacements ÷ FNS 259, Column 7a, Number Of Mail Issuances				X	
Mail Issuance Replacement Rate*	FNS 259, Column 7b, Number Of Replacements ÷ FNS 259, Column 7a, Number Of Mail Issuances				X	
ATP Loss Per ATP Transaction	FNS 46, Line 10, Value Of Unmatched ATPs ÷ FNS 46, Line 8, Total ATPs Transacted	X	X			
ATP Replacement Rate	FNS 46, Line 9, Total Replacement ATPs Transacted ÷ FNS 46, Line 8, Total ATPs Transacted	X	X			

* Also applicable in mixed project area where mail is used as an alternate delivery method.

system type. Thus, for each category of loss reported by a project area ths loss per household is based on the total number of participating households. These individual loss indicators are summed to provide a comparable overall loss figure for each project area.

To get a system specific indicator of loss a second denominator is used—loss per transaction/issuance. The per transaction/issuance loss is based on the number of times households receive benefits. For a single system project area, the total number of transactions/issuances typically exceeds the number of households. However, in project areas with mixed issuance systems the number of either ATP transactions or mail issuances is obviously less than the total number of households participating.

Consequently, the relationship between the size of per household and per transaction/issuance losses varies across project areas. For single system project areas loss per household will be greater than loss per transaction/issuance. In contrast, for mixed systems, the loss per household will be less than the comparable loss per transaction/issuance.

The ATP replacement rate is a measure of how often replacement ATPs are produced within a project area. In general, the more replacement ATPs that are generated, the greater chance there is for an error to occur. Therefore, a relatively high replacement rate may flag the need for replacement control strategies.

The mail replacement rate is a measure of how often replacement mail issuances are produced within a project area. In general, the absolute value of both the loss per household and the replacement rate percentage should be similar. Large discrepancies between the absolute values of these two measures may indicate the need for additional mail loss analyses. For example, a replacement rate lower than the dollar loss per household means that the average value of replacement issuances exceeds the average value of original issuances. This might be the result of higher losses reported by clients receiving large monthly allotments. If this is the case, the project area may want to certify mail delivery for allotments over a certain dollar value.

Administrative Cost Estimates—The major objective with respect to administrative costs was to estimate and compare total issuance costs across project areas. To do this in a valid manner requires total estimates that are based on comparable cost elements. Information on individual elements also provides some explanation for variations across project areas.

Data were collected for the four primary cost components of food stamp issuance: direct labor, contract issuance costs, automated data processing (ADP), and other direct costs (i.e., postage, coupon storage and security charges). This information was obtained for the period between April 1982 and March 1983 through record abstractions and staff interviews. Operational definitions of these categories and a description of data limitations follow.

- **Direct Labor** includes the salaries and fringe benefits of State and local FSP staff with direct responsibility for project area issuance. The first measurement task was to establish through interviews which and how much time Program staff spend on the six issuance activities described in Section 1. Actual salaries and fringe benefit rates were then used to calculate direct labor costs for full-and part-time issuance staff, as well as other personnel performing some issuance functions (e.g., certification staff who prepare manual authorization documents, DMU data entry operators who update computerized master file records).

- **Contract Issuance Costs** refer to the charges billed by a vendor for carrying out one or more issuance activities — most often the delivery of coupons to food stamp households. The question of how much these charges differ from contractor costs was not addressed in this study since contractor invoices represent actual costs to an issuance system.

  In most cases, contract issuance costs are not distinguished beyond a flat rate or transaction fee. These typically include some undifferentiated combination of direct labor, ADP, coupon storage, and security costs. Consequently, the contract cost category overlaps with the others. Since the goal is to estimate and compare total administrative costs of issuance, however, this overlap is not a serious deficiency.

  More problematic is the fact that contract costs include overhead and profit components, which are not included for FSP-operated sites. Without any adjustments to the data, total issuance costs will be systematically biased in the direction of higher costs for project areas with vendor-operated issuance systems.

  A crude estimate of the size of this bias is ten percent. This is an FNS estimate of the Agency's overhead rate. While there is not enough justification simply to increase the total issuance cost of all Program-operated systems by this amount, specific comparison between vendor- and Program-operated issuance systems should consider an adjustment of the appropriate magnitude.

- **ADP Costs** for local issuance are typically based on an allocation of central, State-operated computer costs, which include: equipment operating charges, salaries of ADP personnel, and computer supplies. The allocation of these costs is usually based on actual usage by the FSP of computer time (measured in central processing seconds), computer storage (measured in millions of characters), and programmer services (measured in staff hours). This allocation method is very reliable in segregating FSP costs from other programs served by the computer because all three of these cost variables are well-documented by the computer's internal

accounting system. The method is also comperable to the way private computer vendors bill FSP agencies for computer services. However, the ADP costs associated with creating and maintaining the household master file are applicable to both issuance and certification, and computer allocation methods do not differentiate between costs that are primarily issuance versus certification. Therefore, the practice in this study is to count the entire cost of setting up and maintaining a household master file as an issuance cost.

The ADP cost estimate excludes costs associated with system development since these costs were not uniformly available and accessible from accounting records maintained by the FSP agency. Development costs would be of limited value to the study as a relative measure of system costs because development costs are sensitive to the base from which they occur (e.g., period of development, contractor versus FSP development, type of hardware/software).

ADP costs in some project areas include data entry associated with processing notification forms, eligibility changes, and transacted ATPs. In other project areas these functions are provided by FSP staff and are accounted for in the direct labor category.

- **Other Direct Costs** include local issuance charges for postage, coupon storage, and security. Costs reported in this category tend to vary between project areas. For example, in some project areas, security guard coverage is included as a direct labor cost because FSP staff are assigned to monitor issuance activities. In other project areas, this cost is reported as "other direct cost" because coverage is provided by a contract security agency. In addition, direct costs unique to a certain system type or method of issuance were captured in this category. Such costs include the fees paid to vendors who transport authorization documents from the FSP agency to the issuance vendor, and the cost of leasing specialized issuance equipment (i.e., coupon stuffing machines).

6. DATA ANALYSIS AND PRESENTATION OF RESULTS

(1) Data Analysis Is Based On A Descriptive Approach

Study results are based on a descriptive analysis of project area operating characteristics that minimize vulnerability to loss in different system types as well as environmental settings. This analysis involved a comparison of sites within each category of system type, as well as comparisons between system types.

The questions underlying this analysis included:

- Which vulnerability control strategies are most likely to be used within and across system types?

- Which system vulnerabilities are least likely to be controlled across and between system types?

- Are there particular control strategies common to project areas with low benefit dollar loss as indicated by the measure most related to the corresponding vulnerability?

- Do the project areas with lower losses tend to use certain control strategies in combination?

- How do the loss performance levels in the study sites compare (both collectively, and by system type) to national performance levels?

Limitations to this analysis are tied to the absence of (1) comparative data on sites that do not perform as well as those studied, and (2) comparable and complete performance indicators across and between the five system types. However, these limitations do not appear to dispel the face validity of study findings. These findings are: (1) in some instances specific practices result in perceptibly lower losses, (2) conceptually and intuitively, the implementation of certain controls reduce system vulnerability to loss, and (3) collectively, the study sites perform well below nationally-reported loss levels.

(2) State And Local FSP Directors Are Expected To Be The Primary Audience For Study Results

This project in general and the final report in particular are intended to help State and local Program directors assess their own food stamp operations and identify applicable controls. The following steps are suggested to maximize the report's usefulness:

- Compare the issuance costs and losses in a State or local jurisdiction to benchmarks for the set of "good practice" sites with the most similar issuance system(s). This can be done by examining exhibits on reported losses and administrative costs in the appropriate system chapter (e.g., Exhibits II-2 and II-3 in Chapter Two, ATP Systems).

- Explore possible reasons for performance differences by reading the descriptions of issuance controls for the same "good practice" sites (e.g., Sections 1 through 8 of the ATP Chapter). This should be especially helpful for directors who manage issuance systems with losses that are greater than similar "good practice" sites. Each director will have to judge which of the control strategies described are not currently used but could be applied to his/her jurisdiction.

- It is important to realize, however, that implementation of a new control does not guarantee a reduction in issuance loss for a specific area. The effectiveness of any control strategy will depend on the environment in which it is implemented and/or some local fine tuning. To assist directors in choosing controls

CHAPTER TWO

AUTHORIZATION-TO-PARTICIPATE SYSTEMS

with the greatest likelihood of success for his/her jurisdiction, additional information is provided on project area characteristics (e.g., introduction to the ATP Chapter), the frequency with which a particular control is used across "good practice" sites (see Exhibit VII-1), and a set of detailed case studies in Volume II of this report.

- Finally, if a director determines that his/her issuance system is virtually identical to the operation but not to the performance of comparable "good practice" sites, some thought should be given to changing the type of issuance system. In general, Direct Delivery and On-Line issuance systems warrant the most serious consideration because they offer substantial control over authorization. The features of these system types are described in Chapters Three and Four, with more detail provided in the relevant case studies from Volume II.

II. AUTHORIZATION-TO-PARTICIPATE SYSTEMS

The Authorization-To-Participate (ATP) system is used to deliver about 60 percent of the benefits in the Food Stamp Program (see Appendix A). This system type, which requires client transaction of a paper authorization document, was started in the early 1970s to expand the capacity of local food stamp offices by spreading the issuance function to a variety of issuers, such as banks, post offices, and private check cashing services. In ATP systems, authorizing documents (ATP cards) are generated each month, usually by computer but sometimes manually, and are mailed directly to clients. Each client then presents both the ATP card and an identification card to an issuance agent in the project area. After the identification card is checked, the client signs the ATP card and exchanges it for food stamps.

Our study included ten project areas that have been identified to use ATP systems effectively. Exhibit II-1 on the next page displays average monthly participation data for each ATP project area, and the type of issuance agent employed to transfer benefits. Highlighted below are the major operating similarities and differences found among the ten project areas studied.

- All of the project areas use computer-generated ATP cards to authorize routine monthly benefits. Six project areas allow non-routine ATP cards to be prepared manually. The other four project areas require computer-generation of all non-routine ATP cards.

- Seven project areas use either direct or regular mail as a secondary method of benefit delivery. Five project areas limit direct coupon mailing to specified population groups (e.g., the elderly) or remote project area locations. The other two project areas use a regular mail system that allows clients to choose either over-the-counter or mail issuance.

- Five project areas contract with private vendors to redeem ATP cards and issue coupons over-the-counter. One of the five also contracts out the direct mail issuance of coupons.

- One project area maintains a manual Household Issuance Record (HIR) card on all eligible households. This HIR file is checked when a client presents an ATP card for redemption, and is updated with the date and benefit amount after benefits are issued. Unlike the other nine ATP project areas, which conduct a monthly, computerized reconciliation of ATP transactions to authorizations, this project area bases its reconciliation on a manual comparison of ATP transacted to HIR card documentation.

The methods and practices used by these project areas to minimize duplicate issuance and reduce other system vulnerabilities to loss are described in the first eight sections that follow. The remaining three sections present data on reported benefit loss and administrative costs of issuance, as well as a summary of ATP system strengths and weaknesses.

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EXHIBIT II-1

ATP PROJECT AREA CHARACTERISTICS

PROJECT AREA	PROGRAM ADMINISTRATION	AVERAGE MONTHLY NUMBER/PERCENT OF PARTICIPATING HOUSEHOLDS			AVERAGE MONTHLY VALUE/PERCENT OF ISSUANCE			TYPE OF ISSUANCE AUDIT
		ATP	MAIL	TOTAL	ATP	MAIL	TOTAL	
Mercer County New Jersey	State Administered County Operated	11,904 (100%)		11,904	$1,219,305 (100%)		$1,219,305	Contractor- Financial Agency
Marion County Indiana	State Administered County Operated	28,100 (97%)	996 (3%)	29,096	$3,849,564 (99%)	$ 22,618 (1%)	$3,872,182	Government Agency
Hamilton County Ohio	County Administered County Operated	32,389 (98%)	538 (2%)	32,927	$3,832,042 (99%)	$ 20,046 (1%)	$3,852,088	Government Agency
Torrington County Connecticut	State Administered State Operated	1,474 (100%)		1,474	$ 132,847 (100%)		$ 132,847	Contractor- Financial Agency
Franklin County New York	State Administered County Operated	2,177 (90%)	228 (10%)	2,405	$ 232,619 (90%)	$ 25,900 (10%)	$ 258,519	Contractor- Financial Agency
Orleans Parish Louisiana	State Administered Parish Operated	34,357 (100%)		34,357	$4,431,736 (100%)		$4,431,736	Government Agency
Harris County Texas	State Administered State Operated	45,678 (91%)	4,669 (9%)	50,363	$7,342,389 (97%)	$207,421 (3%)	$7,551,215	Contractor- Other
San Bernardino County California	State Administered County Operated	27,731 (98%)	579 (2%)	28,310	$2,784,163 (98%)	$ 43,036 (2%)	$2,827,199	Contractor- U.S. Postal Service
Lexington County South Carolina	State Administered County Operated	2,603 (79%)	692 (21%)	3,295	$ 367,836 (91%)	$ 35,290 (9%)	$ 403,126	Government Agency
Comanche County Oklahoma	State Administered County Operated	1,149 (46%)	1,278 (54%)	2,427	$ 168,618 (58%)	$121,321 (42%)	$ 289,939	Government Agency

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1. DELAYED PROCESSING OF HOUSEHOLD ELIGIBILITY DATA

Delayed processing of notification data results in a temporary lack of information regarding the eligibility of a particular client for benefits. In certain situations this may result in a duplicate authorization being generated or an unauthorized issuance to the client. Duplicate issuance can occur when a certification worker issues a manual authorization document to a client requiring expedited service and fails to update the client's computerized master file record. In this example, the system, unaware that a manual ATP has been produced, generates a second autho-

writing that a client's ATP card should be (1) held pending further instructions, (2) diverted to a local office for client pick-up, (3) mailed to a different address, or (4) voided due to a change in client circumstances.

- **Master File Update Pricritization**—Should a backlog of notification input documents occur, data entry staff in all project areas are instructed by their supervisors to process new cases and changes that affect benefit levels first. This practice ensures that processing delays do not result in the overissuance or unauthorized issuance of food stamp benefits.

Data for one project area illustrate how some unmatched issuances initially are overstated as a result of delays in updating the household master file. In this site, unmatched issuances (reported in the "other" category of the FNS 46) were due, in part, to emergency ATP cards that were manually produced without promptly updating the authorization file. Follow-up of these discrepancies by FSP staff led to the decrease in nonmatches that is reported below.

	Number of Unmatched ATPs
Reported in the "other" category on line 19 of the FNS 46	97
After three months' follow-up	22
After six months' follow-up	11

While these data do not necessarily indicate a real savings in benefit dollars issued, they do show the potential for (1) reducing administrative costs associated with certification worker follow-up of unmatched issuances, and (2) arriving at more timely and accurate estimates of benefit dollar loss.

2. INACCURATE OR INCOMPLETE PROCESSING OF HOUSEHOLD ELIGIBLITY DATA

The complex, high-volume data collection systems that support ATP systems are vulnerable to inaccurate and fraudulent input. All of the project areas studied use a variety of computer edits and security procedures to control access to and content of household notification data:

- **Specification Edits**—All systems provide edit checks that prohibit the entry of data that fall outside specified values. For example, a file will not be updated if an input transaction does not contain a value for "Family Income" or if the value is not numeric.

- **Logical Edits**—All systems provide some form of logical checks of the notification information entered. Most commonly, these systems check to see that:

  - Only one household record exists for a given social security number

- Only one household record exists for a given address and apartment

- A zip code is within project area boundaries

Project areas with the most sophisticated information systems have developed logical edits that can:

- Automatically place a mail issuance household on alternate delivery if the client has reported a previous mail loss

- Reject a request for benefit authorization if the household has not received a pre-registration clearance. Such clearance indicates that neither the head of household nor household members are currently participating in the Food Stamp Program

- Identify data entry or certification errors by rejecting requests for (1) more than one routine issuance per month, and (2) a replacement allotment that, based on the master file record, is not the same as the original amount authorized and issued

- Reject requests for more than two replacements within a six month period

- **Automated Benefit Calculation/Verification**—All computer systems provide the capability either to compute the household benefit amount automatically or to check the benefit allotment computed manually by the certification worker. Several systems support automatic update of benefit amounts for all cases based on revised eligibility criteria.

- **Computer Access Controls**—All systems have built-in security features that limit access to notification and authorization data to selected personnel. For example, changes to the master file can be made only by data entry personnel, each of whom is assigned a password and operator number.

3. LOSS OR THEFT OF AUTHORIZATION DOCUMENTS

Before processing, food stamp authorization documents (i.e., blank ATP cards) are vulnerable to theft, falsification, and subsequent redemption by unauthorized individuals. Routine, monthly authorizations are usually computer-generated and mailed directly to the client. Access to ATP computer forms is monitored closely by data processing staff who are required to maintain detailed ATP form usage and destruction documentation. Thus, for each computer run, the number of ATPs processed must equal the number of blank ATP forms used. However, blank ATPs, used by local certification office staff to prepare non-routine authorizations manually, are highly vulnerable to unauthorized use unless monitored carefully by project area staff. Two observed practices minimize the fraudulent use of ATP cards in the six project areas that allow manual, on-site preparation of emergency and replacement ATP cards:

- **Limited Access To Blank ATP Cards**—In project areas that maintain an on-site inventory of blank ATP cards, access to working inventory is limited to two project area employees—a certification supervisor and an issuance clerk. Typically, the supervisor is responsible for monitoring blank ATP disbursement and issuance. Management of blank ATP inventory consists of (1) storing ATP cards securely in a locked file cabinet or safe, (2) maintaining an ATP issuance roster that contains the date of ATP issuance as well as information identifying the client and certification worker, (3) conducting daily and monthly inventory reconciliation of issued ATPs to blank ATPs, (4) requiring supervisory approval of all ATPs issued, and (5) in one site, requiring monthly third-party audits of manually issued ATPs against case records.

- **Serialized Identification Card**—Two of the six project areas mentioned above require the use of serialized food stamp identification cards and either computer print or manually type the client's assigned serial number onto his/her ATP card. These numbers are compared at the delivery point in order to decrease client misrepresentation. It is reported, however, that this practice also increases ATP replacements. For example, each time a client reports the loss of his/her identification card, a replacement ATP containing the new serial identification number must be generated. Likewise, a data entry or typographical error can result in an ATP that does not match a client's serial identification number, thereby requiring the client to seek a replacement. Replacements not only increase administrative costs, but the probability of error as well.

After processing, ATPs are vulnerable to loss or theft in the mail. If the client reports that his/her ATP card was stolen or not received, the food stamp agency may issue a replacement ATP card. Replacements may be manually prepared or computer-generated. These replacements can lead to duplicate issuances when both the original and the replacement are transacted either by the client or by the client and another, unauthorized person. According to national FNS 46 data, over 36 percent of the loss in ATP systems is the result of duplicate transactions.

All of the visited project areas in the study have implemented FNS replacement regulations and developed additional procedures for preparing and distributing replacement ATP cards. Typical procedures require:

- A limit of two replacements within a six-month period

- A minimum waiting period of five days and a maximum of ten days from the date an ATP is reported missing until a replacement is generated

- An affidavit signed by the client

- Delivery of replacements to the client at the certification or issuance unit (i.e., not mailed)

- Generation of manually prepared or computer-generated replacements only after appropriate approvals are obtained

Loss data from ATP project areas in the study indicate that systems replacing authorizations by computer have lower losses resulting from FSP agency error and unmatched ATP transactions than systems generating ATP cards manually:

	Number of Project Areas	Average Loss per Household
Computerized Replacements	4	$0.01
Manual Replacements	6	$0.07

Computer replacement reduces loss due to FSP agency error (line 14, FNS 46) and other unmatched ATPs (line 19, FNS 46) for four reasons: (1) notification data required to generate replacements are computer edited for logical and specification errors, (2) a check can be made against master file eligibility data, (3) duplicate replacements are rejected by the system, and (4) the number of replacements in a six month period can be tracked more easily and excessive requests automatically rejected by the system.

4. CLIENT MISREPRESENTATION/FRAUD RESULTING IN OVERISSUANCE

The caseload size and the number of benefit delivery sites impact on a project area's ability to control vulnerability to loss from client misrepresentation. Project areas with small caseloads and one or two delivery points are least vulnerable because cashiers become acquainted with eligible clients and identification occurs by sight. Areas with large, high turnover caseloads, combined with a relatively large number of delivery sites and individual cashiers, require different procedures to avoid loss through misrepresentation. Specifically, these procedures were observed:

- **Verification of Client Signature**—Two project areas use food stamp photo identification cards that must be presented at the time of benefit transfer. In seven of the other eight project areas, cashiers may request a second identification containing the client's photograph, if the signatures on the ATP and non-photo food stamp identification do not match.

- **Predesignation of Authorized Representative**—Nine of the project areas require that authorized representatives be identified on the ATP card or on the client's identification card, or in both places. One project area issues a separate identification card to client-designated authorized and emergency representatives. These representatives must then follow the signature comparison procedure outlined above.

- **Use of Regiscope Cameras**—One project area requires persons without some type of photo identification to be photographed, with their non-photo ID and the ATP card, at the time of benefit transfer. If the Regiscope transaction results in a duplicate issuance, the camera film is used to determine whether the client or a third party was responsible for the fraudulent redemption. After implementation of the Regiscope camera, this project area documented an 81 percent reduction in duplicate transactions. During the period January through June 1977, the project area reported the transaction of 123 duplicate ATP cards. Over the same time period in 1978, the number of duplicate transactions dropped to 23.

- **Assignment Of FSP Monitor Function**—Local FSP personnel are assigned to train vendor cashiers in improved detection of invalid ATPs and to act as monitors. Monitors can be called by cashiers whenever there is a question about the validity of a particular ATP.

5. CASHIER ERROR RESULTING IN OVERISSUANCE

Overissuance can also occur as a result of cashier error in delivering coupons to clients. It appears that a combination of redundant cashier practices combined with an even client flow reduces overissuance. Six practices were reported to reduce cashiering errors resulting in overissuance:

- **Double Counting**—In all ATP project areas, coupon books are counted twice prior to benefit transfer—first, when removed from working inventory, and second, when handed to the recipient. In some project areas, the client is required to recount the coupon books before leaving the issuance area.

- **Pre-Benefit Transfer Coupon Book Separation**—All sites noted a problem with the two and seven dollar coupon books. Because these books are bound with glue, there is a tendency for them to stick together. An additional effort to separate book denominations before issuance was reported to reduce overissuance of these coupon book denominations.

- **Staggered Issuance**—When issuance is concentrated during the first two or three days of the month, cashiers must transfer a high volume of benefits in a short time period. This high issuance volume appears to result in cashiering errors. Staggered issuance, practiced in nine of the ten project areas, permits an even client flow that is reported to reduce cashiering errors. Additionally, one of these project areas assigns issuance staff based on the volume of ATPs transacted. Volume increases/decreases, which are monitored continuously by FSP staff, are met with accompanying increases/decreases in issuance site staffing levels.

- **Assignment Of Overissuance Liability**—Vendors and government agents are held liable by USDA for coupon inventory discrepancies. One contract issuance agent requires teller reimbursement for inventory shortages. In one government-operated issuance site, inventory

errors are used to assess cashier performance; excessive errors may result in disciplinary action. All contract agents and one government issuance site are held liable for the transaction of expired and out-of-state ATP cards.

- **Verification Of Manually Prepared ATP Cards**—Typographical or certification worker errors appearing on manually produced ATP cards can result in unauthorized overissuance or unmatched issuance. One ATP project area requires cashiers to verify the typed accuracy of manual ATP cards by (1) comparing the benefit allotment and coupon book denominations typed on the ATP card to a preprinted breakdown of books by allotment amount, and (2) matching the household size and allotment amount appearing on the ATP card to a master listing of standardized household allotment levels. If a cashier detects an error, the client is referred to his/her certification worker with a note explaining why the ATP cannot be redeemed.

- **Cashier Training**—One of the ATP sites conducts comprehensive cashier training that is designed to reduce loss caused by cashier negligence, client misrepresentation, and falsification of authorization documents. This training program also instructs issuance personnel in all aspects of program operations, thus providing staff with an understanding of how and why loss occurs and what effect such loss has on overall system performance. In addition to ongoing training, cashiers are held accountable for all transactions they process—if a cashier performs below established standards, disciplinary action is taken.

6. LOSS OR THEFT OF MAIL ISSUANCE ALLOTMENTS

Seven project areas use mail as a secondary method of benefit delivery. Several practices were found to minimize losses resulting from coupons reported by the client to have been lost or stolen in the mail. (NOTE: For a more detailed description of practices designed to reduce mail loss refer to Chapter V, Direct Mail Systems).

- **Certified Mail**—One project area certifies all allotments greater than $99 and any others delivered to high-risk zip code locations, i.e., densely populated low-income areas.

- **Special Client Populations**—Four project areas limit mail issuance to selected client populations, such as the aged and handicapped or individuals residing in remote communities in the project area.

- **Alternate Delivery Imposed After One Reported Mail Loss**—FNS regulations require that FSP agencies place mail issuance clients on an alternate method of delivery after two reported losses within a six-month period. To minimize the risk of multiple mail issuance replacements, five project areas require that clients reporting one mail loss be placed on over-the-counter delivery for the remainder of the client's certification period or until the certification worker determines that the threat of loss has been eliminated. One project area mails replacement issuances via certified delivery.

- **Mail Issuance Interview**—In one project area, certification workers interview all clients requesting mail issuance about the security of their mailboxes. During this interview, clients are asked questions regarding the number of individuals who have access to the mailbox, the security of the mailbox if it is located in a public area (i.e., apartment building lobby), and the incidence of previous mail losses. If the certification worker believes that there is a potential for mail loss, the client is placed on over-the-counter issuance until the threat of loss is reduced or eliminated.

- **Analysis Of Mail Loss And Returns**—Issuance staff in all seven project areas using mail issuance conduct routine analyses of reported mail loss, which in turn are reported to the postal service for further investigation. Such analyses, which are summarized on the FNS 259, result in the identification of delivery areas that require special handling (e.g., certified mail or alternate over-the-counter delivery).

  By conducting routine analyses of mail returns, project area staff also can begin to identify patterns that may promote loss. For example, a project area that experiences a high rate of returned allotments monitors such returns to pinpoint the reason for nondelivery. Reasons may include (1) failure by certification staff to submit timely notification updates, (2) delays in processing notification updates, or (3) inadequate instructions to clients regarding the reporting of changes in address.

7. THEFT FROM COUPON STORAGE OR WORKING INVENTORY

This vulnerability affects all project areas and issuance locations where coupons are kept. In small, isolated project offices, this vulnerability may be compounded by the fact that insufficient on-site security is available for monitoring and safeguarding coupon supplies. Several practices were found to prevent inventory theft.

- **Off-Site Bulk Storage**—On the average, the project area issuing points maintain a three- to six-month bulk supply of coupons. Because of inadequate issuance site security, two project areas store their bulk coupon supplies at off-site, secured facilities (i.e., bank and FSP agency distribution point).

- **Limited Access, Dual Verification**—All project area issuance and bulk storage sites follow FNS regulations and guidelines regarding the disbursement, receipt, transfer, and destruction of food coupons. Inventory activities are carried out by at least two authorized staff members who are responsible for verifying coupon shipments and inventory disbursements. Additionally, only a limited number of project area staff have access to coupon supplies—typically, the project area administrator, issuance supervisor, and head cashier.

- **Issuance Area Security**—All of the project areas studied take added precautions to ensure that coupon inventories are safeguarded against potential over-the-counter theft. Typical practices include:

  - Separating working inventories for each issuance cashier to identify internal theft and to monitor the accuracy of individual cashiering activities

  - Using on-site combination lock safes or locking inventory drawers to safeguard daily and working coupon supplies

  - Enclosing and limiting access to cashiering cages to prevent theft of coupons and authorization records

  To further reduce the risks associated with maintaining on-site coupon supplies, several of the project areas serving large caseloads have added one or more of the following controls:

  - Installing a security alarm system that alerts a local contract security agency or police to an attempted robbery or suspicious disturbance (including such devices as sound and motion detectors located in coupon storage area; silent alarms, located in the cashier and receptionist areas, to signify both inventory tampering and suspicious disturbances; vault and issuance area surveillance cameras; and time-delayed combination lock vaults)

  - Stationing security guards (often off-duty police officers) in issuance areas during heavy periods of issuance activity

  - Assigning police or security guard escorts during the transfer of coupons between the issuance sites and the daily storage site

- **Vendor Security**—In the five project areas with private vendors, contract agreements require all issuance agents to maintain adequate records and internal controls that ensure proper coupon issuances and to maintain daily records of coupon books received, issued, and on-hand. Issuance site records are subject to periodic audit by the USDA, State FSP, or vendor.

8. DELAYED OR INCOMPLETE RECONCILIATION OF ISSUANCES

Monthly reconciliation of transacted ATPs with household issuance files is performed by computer in all but one of the ATP project areas studied. This process includes creation of an exception report of errors that may have resulted in benefit loss. The two main categories of exceptions include:

- **Duplicate ATP Transacted**—Two or more ATPs were transacted for a single household.

- **Unmatched ATP**—An ATP is transacted for which no authorization record can be found on the master file.

Both types of exceptions require follow-up to determine if a loss has actually occurred or if the duplicate or unmatched condition can be explained. For example, as noted in Section One, a major explanation for unmatched ATPs that are reported is a delay in processing notification data. If notification data do not reach the master file before monthly reconciliation is done, an exception is reported. All but one of the visited project areas distribute exception reports to the corresponding FSP office. Certification workers are responsible for determining the exact nature of the exception and initiating appropriate corrective action (such as resubmitting client notification data).

9. BENEFIT LOSSES PER HOUSEHOLD AVERAGE $0.14 IN SINGLE ATP SYSTEMS; $0.15 IN MIXED ATP/DIRECT MAIL SYSTEMS

Benefit loss among project areas using ATP systems is based on data reported during the study period on the FNS 250, FNS 259, FNS 46, and FNS 256 reports. The following indicators (displayed on Exhibit II-2 and explained in Chapter I) are used in this section to compare the loss experienced in the ten ATP project areas:

- **Inventory Loss Per Household**—(FNS 250, Line 23, Value of Issuance Difference divided by FNS 256, Number of Participating Households)

- **ATP Loss Per Household and Transaction**—(FNS 46, Line 10, Value of Unmatched ATPs Transacted divided by FNS 256, Number of Participating Households and FNS 46, Line 8, Total ATPs Transacted)

- **Mail Loss Per Household and Issuance**—(FNS 259, Column 7e, Value of Replacements divided by FNS 256, Number of Participating Households and FNS 259, Column 7a, Number of Mail Issuances)

- **ATP Replacement Rate**—(FNS 46, Line 9, Total Replacement ATPs Transacted divided by FNS 46, Line 8, Total ATPs Transacted)

- **Mail Issuance Replacement Rate**—(FNS 259, Column 7b, Number of Replacements divided by FNS 259, Column 7a, Number of Mail Issuances)

- **Total Loss Per Household**—(FNS 250, Line 23, Value of Issuance Difference plus FNS 46, Line 10, Value of Unmatched ATPs Transacted, plus, if applicable, FNS 259, Column 7e, Value of Replacements divided by FNS 256, Number of Households)

Individual loss and replacement rates were calculated using total reported values for the project area for the period April 1982 through March 1983. Column averages were weighted by the total number of households or transactions processed by each of the ten project areas during the twelve-month study period.

The Average Monthly Inventory Loss Per Household Among The ATP Project Areas Included In The Study Is $0.01. Nine of the ten project areas reported an average loss of less than $0.03 per household. Except for one project area, which reported a robbery from a bulk storage point, inventory loss was attributed to

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ATP SYSTEM LOSS INDICATORS
(AVERAGE MONTHLY LOSS
PER HOUSEHOLD)

PROJECT AREA	INVENTORY LOSS PER HOUSEHOLD (DOLLARS)	ATP LOSS PER HOUSEHOLD (DOLLARS)	MAIL LOSS PER HOUSEHOLD (DOLLARS)	TOTAL LOSS PER HOUSEHOLD (DOLLARS)
Mercer County	.02	.05	N/A	.07
Marion County	< .01	.34	< .01	.34
Hamilton County	.02	.03	< .01	.06
Torrington County	.11	.02	N/A	.13
Franklin County	.03	< .01	0	.03
Orleans Parish	< .01	.09	N/A	.09
Harris County	.01	.15	.02	.18
San Bernardino County	.01	.07	.01	.09
Lexington County	< .01	N/R	.16	.17
Comanche County	.01	.05	.09	.15
WEIGHTED AVERAGE	$.01	$.13	$.01	$.15

N/A: Not Applicable
N/R: Not Reported By FSP Agency

NOTE: Per household loss indicators are computed by dividing the total amount reported in each loss category by the TOTAL number of participating households as reported on the project area's FNS 256 report. For project areas using ATP and/or mail issuance two additional indicators--loss per ATP transaction and loss per mail issuance--are used. These indicators, shown on Exhibit II-2(2), display unit losses for only those portions of the project area's recipient population that receive benefits through over-the-counter ATP redemption and/or direct mail issuance. (See Chapter One for further explanation.)

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EXHIBIT II-2(2)

ATP SYSTEM LOSS INDICATORS
(AVERAGE MONTHLY LOSS PER
TRANSACTION/ISSUANCE)

PROJECT AREA	LOSS PER ATP TRANSACTION (DOLLARS)	ATP REPLACEMENT RATE (PERCENT)	UNMATCHED ATPS AS % TOTAL TRANSACTION (PERCENT)	LOSS PER MAIL ISSUANCE (DOLLARS)	MAIL ISSUANCE REPLACEMENT RATE (PERCENT)
Mercer County	.05	.30	.06	N/A	N/A
Marion County	.34	.46	.24	.06	.20
Hamilton County	.03	.24	.04	.07	.17
Torrington County	.02	.47	.02	N/A	N/A
Franklin County	<.01	.03	<.01	0	0
Orleans Parish	.09	N/R	.06	N/A	N/A
Harris County	.16	.31	.09	.23	.34
San Bernardino County	.07	.23	.07	.29	.35
Lexington County	N/R	.75	N/R	.77	.46
Comanche County	.11	.12	.05	.17	.13
WEIGHTED AVERAGE	$.13	.32%	.09%	$.24	.31%

N/A: Not Applicable
N/R: Not Reported By FSP Agency

cashier error. The highest inventory loss per household ($0.11) was reported by a contract vendor; however, the average loss among all contract agents was found to be the same as the average loss among government issuance agents. On the average, the ten ATP project areas performed well below the national inventory loss per household of $0.05.

The Average Monthly ATP Loss Per Household Is $0.13. Unlike inventory loss, which was fairly consistent among the ten sites, ATP loss per household and transaction varied. ATP loss ranged from less than $0.01 to $0.34. The highest ATP loss was reported by a project area that prepares initial authorizations from manually calculated benefit levels. This practice results in a large number of overissuances that are not discovered until the second month of authorization when continuing allotments are calculated by the State computer system. However, this project area, which monitors client overpayments due to calculations errors, estimates that over 40 percent of this reported loss is recovered through a household claims processing mechanism.

The following table compares, by unmatched ATP category, the average loss per ATP transaction in the ten study sites to national averages for the period April 1982 to March 1983.

Unmatched ATP Category	Average Dollar Loss Per Transaction	
	Study Average	National Average
Blank/Stolen	$0.02	<$0.01
Expired	<0.01	0.01
Out-of-State	0	<0.01
Duplicate (State Agency Error)	0.04	0.03
Duplicate (Original and Replacement Redeemed)	0.07	0.16
Counterfeit	0	<0.01
Altered	0	<0.01
Other (Unmatched)	<0.01	0.24
	$0.13	$0.43

A review of this table reveals that lower losses were reported for the project areas in this study than for the Program as a whole. The large differences in performance are associated with duplicate client redemptions and "Other" unmatched ATPs.

The ten sites studied all follow similar replacement policies that should reduce duplicate redemptions. These include: (1) alternate delivery after one reported loss, (2) strict adherence to Federal regulations regarding replacement authorizations, and (3) stringent client verification procedures designed to reduce client misrepresentation.

Unmatched ATPs reported in the "Other" category occur for several different reasons. These include: (1) the issuance of manually prepared non-routine ATPs that contain typographical or allotment level errors, (2) the absence of a client authorization record at the time of reconciliation, and (3) the transaction of out-of-county ATPs that can be reconciled to the State master file, but not the project area master file. Practices followed by the ten project areas that appear to keep these losses below the national average include:

- The expedited processing of notification data
- The computerized calculation of benefit levels based on household budget data
- The existence of logic and specification edits to ensure data integrity
- The computerized generation of all replacement and non-routine issuances

This last practice when combined with the other three appears to reduce loss in two categories—duplicate issuance due to State agency error and "other" unmatched issuances. Combined loss in these categories for four project areas requiring computer processing of replacement and non-routine issuances is less than $0.01 per transaction. In the six project areas allowing manual ATP preparation, combined loss per transaction is $0.07.

Computerized replacement reduces loss in these categories primarily because notification data required to generate replacement and non-routine ATPs are computer-edited for logical and specification errors. As stated in Section 2, these edit checks can prevent the generation of an inaccurate or unauthorized ATP if (1) a master file entry does not exist, (2) household income exceeds a specified level, (3) the client has already received a replacement or original issuance, and (4) client identifying information is inaccurate.

The Average Monthly ATP Replacement Rate Experienced Among The Ten ATP Project Areas Is 0.32 Percent Of Total Transactions. Nationally, ATPs were replaced at the rate of 0.81 percent during the period April 1982 through March 1983. The replacement rate among the ten sites ranged from a low of 0.03 percent to a high of 0.75 percent. In general, the production of a replacement ATP, be it computer-generated or manually prepared, increases the chance for errors which, in turn, increases the potential for loss.

ATPs are replaced for one of two reasons: (1) the client claims non-receipt of the original ATP, or (2) the client requires a revised ATP because of administrative

error or FSP practice. Essentially, the practices followed to minimize ATP loss per transaction apply to reducing the ATP replacement rate.

- For client-requested replacements, these practices include (1) placing the client on alternate ATP delivery after one reported loss, (2) adhering to Federal regulations regarding replacement authorizations, and (3) following stringent client verification procedures.

- For administrative error replacements, these practices include (1) expediting the processing of notification data, (2) requiring computer-generation of allotment, and (3) installing computer edits. Additionally, computerizing the replacement of ATPs can minimize loss resulting from typographical errors appearing on manually produced replacement ATPs.

- For an FSP agency practice (e.g., the serial identification number on the ATP must match the serial identification number on the client's food stamp identification card) requiring an original ATP to be voided and a replacement issued, the accuracy of the replacement can be ensured through computerized processing.

Average Mail Loss In ATP Project Areas Using Mail As An Alternate Delivery Method Is $0.24 Per Mail Issuance.* The national mail loss per issuance for the period April 1982 through March 1983 was $0.75. Mail losses among the seven mixed systems ranged from zero in a project area using targeted direct mail issuance to $0.77 in a project area using regular mail issuance.

Five of the mixed project areas appear to have minimized the risks associated with coupon mailing by direct or regular mailing of benefits to targeted recipient populations. On the other hand, two mixed sites, employing a regular mail issuance system, have not been as successful in minimizing mail replacements resulting in loss. Restrictive mail practices, which can be used in both mail systems, include: (1) mailing benefits only to special population groups (e.g., the elderly, handicapped) or remote project area locations that have limited access to primary methods of benefit transfer, (2) limiting the dollar value of coupons that can be sent through the mail, and (3) sending all mail issuances via certified mail.

Unlike regular mail systems, the client population of targeted direct mail issuance is fairly constant, thus enabling staff to pinpoint (almost immediately) where and possibly why loss is occurring. Furthermore, regular mail project areas are vulnerable to multiple losses occurring when a client reports both an ATP loss and a mail issuance loss in the same month.

The Average Mail Issuance Replacement Rate Experienced Among The Mixed Project Areas Is 0.31 Percent Of Total Issuances. Nationally, the average replacement rate was 0.59 percent. Among the ten project areas studied, this rate ranges

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* For a comparison of loss rates experienced in project areas using direct mail as the primary method of benefit delivery to project areas using mail as an alternate method, refer to Chapter V, Direct Mail Systems.

from zero to 0.46 percent. It appears that the relationship between mail loss and targeted issuance, described above, is relevant to this discussion of mail issuance replacement rates. Project areas using unrestricted regular mail issuance experience a higher replacement rate than those that use targeted direct or regular mail issuance.

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Based on a comparison of study site and national performance measures, the practices employed by the ten ATP project areas appear to be effective in minimizing system vulnerabilities to loss. The table below presents a summary comparison of performance measures discussed in this section.

	Performance Measures	
Performance Indicators	**Study Average**	**National Average**
Inventory Loss Per Household	$0.01	$0.05
ATP Loss Per ATP Transaction	$0.13	$0.43
ATP Replacement Rate	0.32%	0.81%
Mail Loss Per Mail Issuance	$0.24	$0.75
Mail Issuance Replacement Rate	0.31%	0.59%

10. ISSUANCE-RELATED COSTS AVERAGE $1.70 PER HOUSEHOLD FOR ATP PROJECT AREAS

Exhibit II-3 on the next page presents the per household monthly costs of issuance for the project areas by major cost elements. These averages were calulated from site-reported cost and participation data for the period April 1982 to March 1983.

- **Project Area Categorical And Total Costs Per Household** were calculated by dividing the cost in each category reported by a project area by the number of participating households, as reported on the FNS 256, Monthly Project Area Participation and Coupon Issuance Report.

- **Weighted Average Monthly Issuance Cost Per Household** was calculated as the sum of project area total costs divided by the sum of project area participating households, as reported on the FNS 256.

The study objective with respect to administrative costs was to estimate and compare total issuance costs across project areas. To meet this objective, the individual costs of performing issuance-related activities were sorted into a standard set of issuance system resource requirements. This set includes (1) the salaries and fringe benefits paid to FSP agency personnel who supervise, perform, or monitor one or more issuance functions; (2) the automated data processing costs associated with the processing of food stamp master file data; (3) the fees paid to contract issuance agents; and (4) the miscellaneous direct costs required to support issuance activity, such as postage to mail coupons or authorization documents, and fees paid to transport or secure food stamp coupons.

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ISSUANCE COSTS ATP SYSTEMS
(AVERAGE MONTHLY COST
PER HOUSEHOLD)

PROJECT AREA	COST ELEMENT (DOLLARS/HOUSEHOLD)				
	DIRECT LABOR	AUTOMATED DATA PROCESSING	CONTRACT ISSUANCE	OTHER	TOTAL
Mercer County	0.75	0.77	0.94	0.14	2.60
Marion County	0.59	0.22	N/A	0.31	1.11
Hamilton County	1.30	0.02	N/A	0.08	1.40
Torrington County	N/R	N/R	N/R	N/R	N/R
Franklin County	1.27	1.07	0.96	0.17	3.47
Orleans Parish	1.00	0.02	N/A	0.60	1.62
Harris County	0.13	0.26	0.75	0.37	1.51
San Bernardino County	0.33	0.35	1.57	0.19	2.44
Lexington County	1.90	0.20	N/A	0.36	2.46
Comanche County	1.61	1.92	N/A	N/A	3.53
				WEIGHTED AVERAGE	$1.70

N/A: Not Applicable
N/R: Not Reported By FSP Agency

When the costs of these resource requirements are added, their sum represents a reasonable estimate of the costs required to operate a project area's issuance system. However, since the mix of resources varies among project areas, it is not possible to develop "pure" estimates or averages for individual cost categories. For example, in some project areas security guard coverage is included as a direct labor cost because FSP staff are assigned to monitor issuance activities. In other project areas this cost is reported as an "other direct" (miscellaneous) cost because coverage is provided by a contract security agency.

The Average Monthly Cost Per Household Among Project Areas Is $1.70, With Project Area Total Costs Ranging From $1.11 To $3.53. Major explanations for variability in total costs are:

- **Project Area Caseload Size**—On the average, issuance costs per household are lower in project areas with large caseloads; higher in project areas with small caseloads. During the study period, the average monthly number of households served among nine of the ten ATP project areas (Torrington County is excluded*) was 260,107. The four sites serving caseloads below the study average experienced an average cost per household of $2.79. The average monthly cost among the five project areas serving caseloads larger than 260,107 was $1.58 per household. This economy of scale occurs because sites with large caseloads have the ability to spread relatively fixed costs, such as supervisory staff direct labor and automated data processing, over a larger base.

- **Contracted Benefit Delivery**—On the average, issuance costs are higher in project areas that employ contract vendors to deliver food coupons; lower in project areas that have issuance sites operated by FSP agency staff. Among the six project areas that contracted with an issuance vendor, the average cost per household was $1.95. The three sites operated by FSP agencies averaged $1.48 per household. Contract issuance costs include overhead and profit components which are not included for FSP-operated systems. Without any adjustments to the data, total issuance costs will be biased in the direction of higher costs for project areas with vendor-operated delivery points. Using a ten percent overhead factor (reported by FNS to be the Agency overhead rate) the cost of government-operated issuance sites would be $1.63, which is still below the average contractor cost.

11. EFFECTIVE ATP PROJECT AREAS BUILD IN CONTROLS FOR MANAGING DECENTRALIZED OPERATIONS TO REDUCE VULNERABILITY TO LOSS

The major strength of an ATP system is that it improves client access to food stamp benefits. All ATP project areas mail the ATP authorization document to the client's home. Benefit transfer typically takes place at more than one issuance office. Issuance offices are often operated by contract vendors, and most

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* The Connecticut FSP State Agency did not report issuance costs for Torrington County.

ATP project areas maximize client access to benefits by providing a variety of issuance sites located near clusters of client residences. Clients are free to choose their benefit issuance site from month to month when multiple sites are available.

Project area vulnerabilities to loss stem from the decentralized nature of ATP operations. Issuance sites are unable to check ATP validity against master file data at the time of benefit delivery. When ATPs presented to issuance agents are based on outdated, incomplete, inaccurate, or inaccurately transcribed master file data, loss can result. In effective systems, unauthorized ATP transactions due to notification processing delays are minimized by establishing deadlines for master file update, instituting a pre-mailing procedure for locating and deleting expired or outdated authorizations, and prioritizing data entry on the basis of case type or change impact on benefit level. Transacting inaccurate ATPs is controlled by installing system logic and specification edits and an automated benefit calculation function in masterfile processing programs, and by requiring that all authorizations be computer-generated.

ATP project areas are also vulnerable to loss because the ATP is a document which moves from one location to another and can be stolen from the storage unit or while in transit. Effective systems control for loss resulting from unauthorized redemption of stolen ATPs by mandating that all ATPs be computer-generated, by conducting monthly third-party audits of manually issued ATPs, and by limiting physical access to ATPs to the issuance supervisor and designated staff. Duplicate and unauthorized issuances that occur as a result of client-reported loss or theft can be minimized by requiring alternate ATP delivery after one reported loss, and by instituting mail security safeguards, such as presorting and bundling ATP envelopes by zip code prior to delivery to the post office, in order to avoid handling outside the issuance unit prior to carrier delivery.

Freedom to select an issuance site means that clients can move anonymously through the benefit transfer process in ATP project areas. This enhances project area vulnerability to loss resulting from client misrepresentation. Effective project areas generally require more than one form of client identification prior to ATP transaction in order to control for this type of loss. Other project area controls for client misrepresentation are providing issuance agents with detailed instructions about controlling vulnerability to loss during the transaction process, requiring vendors to reimburse the project area for invalid ATP redemptions, and appointing a FSP issuance liaison to assist with and monitor the vendor issuance process.

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CHAPTER THREE

DIRECT DELIVERY SYSTEMS

III. DIRECT DELIVERY SYSTEMS

In a regular ATP system, clients who experience repeated loss of their ATP are placed on alternate delivery—they are required to pick up ATPs at a local certification or issuance office. This alternate delivery concept, when applied to a large recipient population, is known as Direct Delivery. This system is currently used to deliver about six percent of all food stamp benefits (See Appendix A). The approach evolved in an attempt to reduce the number of duplicate ATPs transacted without restricting client accessibility. The primary difference between these two systems is that Direct Delivery systems send monthly and daily authorizations to an issuance agent (typically a contract vendor). Other issuance functions, such as notification and client verification, are identical to those performed in regular ATP systems.

Our study included four project areas that have been identified to use Direct Delivery systems effectively. Exhibit III-1 on the next page displays average monthly participation data for each Direct Delivery project area, and the type of issuance agent employed to transfer benefits. Highlighted below are the major operating similarities and differences found among the four Direct Delivery project areas studied.

- All four project areas employ contract vendors to direct-deliver ATPs to eligible households. In one project area, prepackaged coupon allotments are sent to agents for client delivery. In the other three project areas, only ATP cards are sent to the issuance agent. In these areas, the vendor must maintain on-site coupon supplies from which to issuance coupon allotments.

- In two project areas, a regular ATP system is employed to authorize non-routine benefits (e.g., supplemental and initial-month allotments). The other two project areas mail coupons directly to either special population groups (e.g., the elderly) or recipients receiving non-routine benefits.

- Three-quarters of the way through the study period, one project area changed from an ATP system to a combination Direct Delivery/Direct Mail System.

The methods and practices used by these project areas to minimize duplicate issuance and reduce other system vulnerability to loss are described in the first eight sections that follow. The remaining three sections present data on reported benefit loss and administrative costs of issuance, as well as a summary of Direct Delivery system strengths and weakeness.

1. DELAYED PROCESSING OF HOUSEHOLD ELIGIBILITY DATA

Delayed processing of notification data results in a temporary lack of information regarding the eligibility of a particular client for benefits. In certain situations this may result in an unauthorized issuance to the client. This can occur when either certification or data management staff do not process household notification data in a timely fashion. For example, an unprocessed change in household

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EXHIBIT III-1

DIRECT DELIVERY PROJECT
AREA CHARACTERISTICS

PROJECT AREA	PROGRAM ADMINISTRATION	AVERAGE MONTHLY NUMBER/PERCENT OF PARTICIPATING HOUSEHOLDS				AVERAGE MONTHLY VALUE/PERCENT OF ISSUANCE				TYPE OF ISSUANCE AGENT
		ATP DIRECT DELIVERY	ATP CLIENT DELIVERY	MAIL	TOTAL	ATP DIRECT DELIVERY	ATP CLIENT DELIVERY	MAIL	TOTAL	
Philadelphia County, Pennsylvania	State Administered, County Operated	109,020 (67%)	53,697 (33%)	-	162,717	$10,654,736 (67%)	$ 5,247,856 (33%)	-	$15,902,592	Contractor - Financial Agency
Allegheny County, Pennsylvania	State Administered, County Operated	30,380 (50%)	30,380 (50%)	-	60,760	$ 2,642,419 (50%)	$ 2,642,419 (50%)	-	$ 5,284,838	Contractor - Financial Agency
Fayette County, Kentucky	State Administered, County Operated	5,797 (93%)	-	452 (7%)	6,249	$ 782,164 (98%)	-	$ 14,595 (2%)	$ 769,759	Contractor - Other
Cook County, Illinois	State Administered, State Operated	*		*	265,950	*		*	$31,268,537	Contractor - Other

* Because Cook County's Direct Delivery system was implemented during the last three months of the study period, exact participation statistics are not available. However, it is estimated that 85 percent of the participating households receive their benefits from direct delivery agents; the other 15 percent receive non-routine benefits through the mail.

income could result in either an over- or under-issuance. Likewise, failure to notify the system of a termination of food stamp benefits could result in an unauthorized issuance. These processing delays result in unmatched issuances at the time of reconciliation, which in turn are reported as issuance losses on the FNS 46 report.

All the effective Direct Delivery systems studied are responsive to FNS requirements for prompt handling of notification data. Since these sites have computerized eligibility files, they have developed automated procedures to control and expedite data processing. Four techniques appear to reduce vulnerability related to delays in establishing or updating client authorization records. (NOTE: see Chapter VI, HIR Systems, for a discussion of techniques applicable to manual systems).

- **One-Day Turnaround Time**—All of the Direct Delivery project areas attempt to process notification data within one day after receipt from the certification unit. In all of the sample project areas, this is facilitated by having data entry capability in or adjacent to certification areas.

- **Batch Control**—All of the sample project areas employ a batch control numbering system to prevent documents from being lost and to monitor timely completion of corrections and updates. Such systems automatically assign a document number or date to each notification form. This information assists project area staff in identifying where data are stored and when the information was processed.

- **Processing Deadlines**—All the effective Direct Delivery project areas establish an end-of-month cutoff date for processing updates to the authorization master file, thus ensuring that all required changes are made prior to ATP printing. Failure by certification staff to adhere to these cutoff dates may result in administrative errors that are subsequently reported as deficiencies in a certification unit's performance rating. These project areas also provide a procedure for locating and "pulling" ATPs that need updating after the cutoff date but prior to vendor distribution. Typically, this involves a certification worker notifying issuance or data processing, in writing, that a client's ATP card be (1) held pending further instructions, (2) diverted to a local office for client pick-up, (3) mailed to a different address, or (4) voided due to a change in client circumstances.

- **Master File Update Prioritization**—Should a backlog of notification input documents occur, data entry staff in all project areas are instructed by their supervisors to process new cases and changes that affect benefit levels first. This practice ensures that processing delays do not result in the overissuance or unauthorized issuance of food stamp benefits.

  Data for one project area illustrate how some unmatched issuances are overstated initially as a result of delays in updating the household master file. In this site, unmatched issuances (reported in the "Other"

category of the FNS 46) were due, in part, to emergency ATP cards that were manually produced without promptly updating the authorization file. Follow-up of these discrepancies by FSP staff led to the decrease in nonmatches that is reported below.

	Number of Unmatched ATPs
Reported in the "Other" category on line 19 of the FNS 46	97
After three months' follow-up	22
After six months' follow-up	11

While these data do not necessarily indicate a real savings in benefit dollars issued, they do show the potential for (1) reducing administrative costs associated with certification worker follow-up of unmatched issuances, and (2) arriving at more timely and accurate estimates of benefit dollar loss.

2. INACCURATE OR INCOMPLETE PROCESSING OF HOUSEHOLD ELIGIBILITY DATA

The complex, high-volume data collection systems that support Direct Delivery systems are vulnerable to inaccurate and fraudulent input. All of the project areas studied use a variety of computer edits and security procedures to control access to and content of household notification data:

- **Specification Edits**—All systems provide edit checks that prohibit the entry of data that falls outside specified values. For example, a file will not be updated if an input transaction does not contain a value for "Family Income" or if the value is not numeric.

- **Logical Edits**—All systems provide some form of logical checks of the notification information entered. Most commonly, these systems check to see that:

  - Only one household record exists for a given social security number

  - Only one household record exists for a given address and apartment

  - A zip code is within project area boundaries

  Project areas with the most sophisticated information systems have developed logical edits that can:

  - Automatically place a mail issuance household on alternate delivery if the client has reported a previous mail loss

- Reject a request for benefit authorization if the household has not received pre-registration clearance. Such clearance indicates that neither the head of household nor household members are currently participating in the Food Stamp Program

- Identify data entry or certification errors by rejecting requests for (1) more than one routine issuance per month, and (2) a replacement allotment that, based on the master file record, is not the same as the original amount authorized and issued

- Reject requests for more than two replacements within a six month period

- **Automated Benefit Calculation/Verification**—All computer systems provide the capability either to compute household benefit amounts automatically or to check the benefit allotment computed manually by the certification worker. Several systems support automatic update of benefit amounts when eligibility criteria are revised.

- **Computer Access Controls**—All systems have built-in security features that limit access to notification and authorization data to selected personnel. For example, changes to the master file can be made only by data entry personnel, each of whom is assigned a password and operator number.

3. LOSS OR THEFT OF AUTHORIZATION DOCUMENTS

In a Direct Delivery system, this vulnerability is minimized by the methods used to prepare and distribute issuance authorization documents. The use of predetermined assignment of clients to issuance locations facilitates logistics planning and minimizes loss of original authorization documents. In large project areas, logistics planning is essential to effective system performance. Two methods of issuance location assignment are employed by Direct Delivery project areas.

- **Zip Code**—One project area assigns all direct delivery clients to an issuance point based on the household's zip code. Assignment of newly-certified clients is determined automatically by the county's client information system. Predetermined zip code assignment helps to ensure an even distribution of clients among issuance points. In addition, vendors easily verify the accuracy of ATP shipments by checking for out-of-sequence zip codes.

- **Client Selection**—In three project areas, clients can elect to receive their ATPs from one of several issuance sites. This assignment process requires that the certification worker pre-code an issuance location for each new certification. Instead of checking for out-of-sequence zip codes, vendors verify ATP shipments by an issuance site code number.

The majority of losses occurring in regular ATP systems are a result of duplicate redemptions—clients claim non-receipt of the original ATP, are issued replace-

ments, and subsequently both the original and replacement ATP are redeemed. Except in the unlikely event that the ATP is delivered to the wrong agent or the agent mistakenly issues the ATP to the wrong client, recipients are assured of the availability of an authorizing document when they meet local verification requirements. Furthermore, direct delivery reduces the opportunities to tamper with ATPs (e.g., alteration of benefit allotment amount, change of expiration date) before they are presented for issuance.

In the project area where direct delivery originated these improvements were reported:

- **Sixty-Eight Percent Reduction In Duplicate Issuances**—During the first three months (October to December, 1981) of total project area participation in the Direct Delivery system, there were a total of 1,114 duplicate ATPs transacted. Over the same period of time in 1980, there were a total of 3,522 duplicate issuances, which occurred as a result of regular client delivery of ATP cards.

- **Eighty Percent Reduction In Direct Labor Costs**—This site estimated that prior to the implementation of Direct Delivery, the FSP agency was spending approximately $37,450 per month in direct labor resources to process manual ATP replacements. Because Direct Delivery reduces the number of ATP replacement requests, the agency estimates that only $7,420 per month is currently being spent in processing manual ATP cards.

4. CLIENT MISREPRESENTATION/FRAUD AT BENEFIT DELIVERY POINT

The caseload size and the number of benefit delivery sites impact a project area's ability to control vulnerability to loss from client misrepresentation. Project areas with small caseloads and one or two delivery points are least vulnerable because cashiers become acquainted with eligible clients and identification occurs by sight. Areas with large, high turnover caseloads, combined with a relatively large number of delivery sites and individual cashiers, require different procedures to avoid loss through misrepresentation. Specifically, these procedures were observed:

- **Signature Comparison**—The client must sign the ATP in the presence of the cashier. If this signature does not match the client's food stamp identification card, an additional form of identification with the client's photograph is requested.

- **Photo Identification**—In two Direct Delivery project areas clients are required to show food stamp photo identification cards at the time of benefit transaction. This requirement is prompted by an FNS regulation which requires project areas with large recipient populations to issue photo identification cards.

- **Predesignation Of Authorized Representative**—One of the project areas requires that authorized representatives be identified on the ATP or on the client's identification card, or in both places. Authorized representatives must then follow the signature comparison procedure outlined above.

- **Assignment Of FSP Monitor Function**—Project area personnel are assigned to provide ongoing assistance to vendor organizations, to include: (1) training vendor staff in redemption and reconciliation procedures, (2) locating ATPs that have been delivered to the wrong vendor, and (3) answering questions about the validity of a particular ATP.

5. CASHIER ERROR RESULTING IN OVERISSUANCE

Overissuance can also occur as a result of cashier error in delivering coupons to clients. It appears that a combination of redundant cashier practices combined with an even client flow reduces overissuance. Six practices were reported to reduce cashiering errors resulting in overissuance:

- **Double Counting**—In three Direct Delivery project areas, coupon books are counted twice prior to benefit transfer—first, when removed from working inventory and second, when handed to the recipient. In these sites, the client is requested to recount and sign the coupon books before leaving the issuance area.

- **Pre-Benefit Transfer Coupon Book Separation**—Three sites noted a problem with the two and seven dollar coupon books. Because these books are bound with glue, there is a tendency for them to stick together. An additional effort to separate book denominations before issuance was reported to reduce overissuance of these coupon book denominations.

- **Staggered Issuance**—When issuance is concentrated during the first two or three days of the month, cashiers must transfer a high volume of benefits in a short time period. This high issuance volume appears to result in cashiering errors. Staggered issuance, practiced in all four project areas, permits an even client flow that is reported to reduce cashiering errors.

- **Verification Of Manually Prepared ATP Cards**—Typographical or certification worker errors appearing on manually produced ATP cards can result in unauthorized overissuance or unmatched issuance. One Direct Delivery project area requires cashiers to verify the typed accuracy of manual ATP cards by comparing the benefit allotment and coupon book denominations typed on the ATP card to a preprinted breakdown of books by allotment amount. If a cashier detects an error, the client is referred to his/her certification worker.

- **Assignment Of Overissuance Liability**—Vendors and government agents are held liable by USDA for coupon inventory discrepancies. All contract agents are held liable for the transaction of expired ATP cards.

- **Prepackaging Of Allotments**—One project area has modified the Direct Delivery system by prepackaging coupon allotments with ATPs. Advantages of this modified delivery method are:

  - Reduction in the number of issuance points required to maintain daily and bulk coupon supplies.

  - Limitation of agent liability to allotments on hand, thus eliminating time-consuming tasks associated with daily inventory reconciliation and monthly inventory audits.

  - Increased accuracy in delivering exact benefit allotments to eligible households. This project area employs an automated stuffing machine to process all direct delivery allotments. Since its inception, inventory loss due to cashier errors is reported to be zero.

  - Reduction in the time required to transact benefits, thus eliminating cashiering tasks, such as retrieving coupons from inventory, counting and verifying coupon amounts, and recording transactions.

6. LOSS OR THEFT OF MAIL ISSUANCE ALLOTMENTS

Two Direct Delivery project areas use mail as an alternate method of benefit delivery. Several practices were found to minimize losses resulting from coupons reported lost or stolen in the mail. (NOTE: For a more detailed description of practices designed to reduce mail loss refer to Chapter V, Direct Mail Systems).

- **Alternate Delivery Imposed After One Reported Mail Loss**—FNS regulations require that FSP agencies place mail issuance clients on an alternate method of delivery after two reported losses within a six month period. To minimize the risk of multiple mail issuance replacements, one project area requires that clients reporting one mail loss be placed on over-the-counter delivery for the remainder of the client's certification period or until the certification worker determines that the threat of loss has been eliminated.

- **Special Client Populations**—One project area limits mail issuance to selected client populations, such as the elderly and handicapped.

- **Mail Issuance Interview**—In one project area, certification workers interview all clients requesting mail issuance regarding the security of their mailboxes. During this interview, clients are asked questions regarding the number of individuals who have access to the mailbox, the security of the mailbox if it is located in a public area (i.e., apartment building lobby), and the incidence of previous mail losses. If the certification worker believes that there is a potential for mail loss, the client is placed on over-the-counter issuance until the threat of loss is reduced or eliminated.

- **Analysis Of Mail Loss And Returns**—In both project areas, issuance staff conduct routine analyses of reported mail losses which in turn are reported to the Postal Service for further investigation. Such analyses, which are summarized on the FNS 259, result in the identification of delivery areas that require special handling (e.g., certified mail or alternate over-the-counter delivery).

  By conducting routine analyses of mail returns, project area staff also can begin to identify patterns that may promote loss. For example, a project area that experiences a high rate of returned allotments monitors such returns to pinpoint the reason for nondelivery. Reasons may include (1) failure by certification staff to submit timely notification updates, (2) delays in processing notification updates, or (3) inadequate instructions to clients regarding the reporting of changes in address.

7. THEFT FROM COUPON STORAGE OR WORKING INVENTORY

This vulnerability affects all project areas and issuance locations where coupons are kept. In small, isolated project offices, this vulnerability may be compounded by the fact that insufficient on-site security is available for monitoring and safeguarding coupon supplies. Practices found to prevent inventory theft in the four Direct Delivery project areas, which on the average maintain a three to six month supply of coupons, are:

- **Limited Access, Dual Verification**—All project area issuance and bulk storage sites follow FNS regulations and guidelines regarding the disbursement, receipt, transfer, and destruction of food coupons. Inventory activities are carried out by at least two authorized staff members who are responsible for verifying coupon shipments and inventory disbursements. Additionally, only a limited number of project area staff have access to coupon supplies—typically, the project area administrator, issuance supervisor, and head cashier.

- **Issuance Area Security**—All of the project areas studied take added precaution to ensure that coupon inventories are safeguarded against potential over-the-counter theft. Typical practices include:

  - Separating working inventories for each issuance cashier to monitor the accuracy of individual cashiering activities

  - Using on-site combination lock safes or locking inventory drawers to safeguard daily and working coupon supplies

  - Enclosing and limiting access to cashiering cages to prevent theft of coupons and authorization records

  To further reduce the risks associated with maintaining on-site coupon supplies, all of the project areas have added one or more of the following controls:

  - Installing a security alarm system that alerts a local contract security agency or police to an attempted robbery or suspicious

disturbance (including such devices as sound and motion detectors located in coupon storage area; silent alarms to signify both inventory tampering and suspicious disturbances; vault and issuance area surveillance cameras; and time-delayed combination lock vaults)

- Stationing security guards (often off-duty police officers) in issuance areas during heavy periods of issuance activity

- Assigning police or security guard escorts during the transfer of coupons and ATPs from bulk storage to the issuance site

- **Vendor Security**—In three project areas, vendor contract agreements require all issuance agents to maintain adequate records and internal controls that ensure proper coupon issuances and to maintain daily records of coupon books received, issued, and on-hand. Issuance site records are subject to periodic audit by the USDA, State FSP, or vendor.

8. DELAYED OR INCOMPLETE RECONCILIATION OF ISSUANCES

Monthly reconciliation of transacted ATPs with household issuance files is performed by computer in all of the Direct Delivery project areas studied. This process includes creation of an exception report of errors in issuance that may have resulted in benefit loss. The two main categories of exceptions include:

- **Duplicate ATP Transacted**—Two or more ATPs were transacted for a single household. This loss is minimal in a Direct Delivery system, but can still occur if a client is misrepresented by a third party.

- **Unmatched ATP**—An ATP is transacted for which no authorization record can be found on the master file

Both types of exceptions require follow-up to determine if a loss has actually occurred or if the duplicate or unmatched condition can be explained. For example, as noted in Section One, a major explanation for unmatched ATPs is a delay in processing notification data. If notification data do not reach the master file before monthly reconciliation is done, an exception is reported. All of the visited project areas distribute exception reports to the corresponding certification office. Certification workers are responsible for determining the exact nature of the exception and initiating appropriate corrective action (such as resubmitting client notification data).

9. ATP LOSS PER HOUSEHOLD IS $0.04 IN THE SINGLE DIRECT DELIVERY SYSTEM; $0.16 IN MIXED DIRECT DELIVERY SYSTEMS

Benefit loss among project areas using Direct Delivery systems is based on data reported during the study period on the FNS 250, FNS 259, FNS 46, and FNS 256 reports.

The following indicators (displayed on Exhibit III-2 and explained in Chapter I) are used in this section to compare the loss experienced in the four Direct Delivery project areas:

- **Inventory Loss Per Household** (FNS 250, Line 23, Value of Issuance Difference divided by FNS 256, Number of Participating Households)
- **ATP Loss Per Household and Transaction** (FNS 46, Line 10, Value of Unmatched ATPs Transacted divided by FNS 256, Number of Participating Households and FNS 46, Line 8, Total ATPs Transacted)
- **Mail Loss Per Household and Issuance** (FNS 259, Column 7e, Value of Replacements divided by FNS 256, Number of Participating Households and FNS 259, Column 7a, Number of Mail Issuances)
- **ATP Replacement Rate** (FNS 46, Line 9, Total Replacement ATPs Transacted divided by FNS 46, Line 8, Total ATPs Transacted)
- **Mail Issuance Replacement Rate** (FNS 259, Column 7b, Number of Replacements divided by FNS 259, Column 7a, Number of Mail Issuances)
- **Total Loss Per Household** (FNS 250, Line 23, Value of Issuance Difference plus FNS 46, Line 10, Value of Unmatched ATPs Transacted, plus, if applicable, FNS 259, Column 7e, Value of Replacements divided by FNS 256, Number of Households)

Individual loss and replacement rates were calculated using total reported values for the project area for the period April 1982 through March 1983. Column averages were weighted by the total number of households or transactions processed by each of the four project areas during the twelve-month study period.

The Average Monthly Inventory Loss Per Household Among Direct Delivery Project Areas Is $0.03—In all four project areas, inventory loss was attributed to over-the-counter benefit transfer errors caused by vendor-employed cashiers. During the last three months of the study period, one project area eliminated all vendor-maintained coupon inventories by modifying its Direct Delivery system to include the delivery of prepackaged coupon allotments to all issuance vendors. This modification, which centralized and automated the handling of individual coupon allotments, eliminates inventory discrepancies that normally occur when cashiers transfer individual coupon books to recipients. Additionally, the centralized issuance unit reported no losses occurring after the introduction of prepackaged coupon allotments. On the average the four project areas performed below the national average inventory loss per household of $0.05.

The Average Monthly ATP Loss Per Household Is $0.10; $0.11 Per Transaction—Unlike inventory loss, which was fairly consistent among the four Direct Delivery sites, ATP loss per household and transaction varied. Loss per household (transaction) ranges from a $0.04 ($0.05) to $0.15 ($0.15). Total ATP loss is based on FNS 46 project area data that do not all differentiate between loss resulting from direct delivery of ATPs and the mailing of ATPs to clients. However, one project area, which did employ a single Direct Delivery system during the entire study period, reports the lowest average loss ($0.04) due to the transaction of

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EXHIBIT III-2(1)

DIRECT DELIVERY SYSTEM
LOSS INDICATORS
(AVERAGE MONTHLY LOSS
PER HOUSEHOLD)

PROJECT AREA	INVENTORY LOSS PER HOUSEHOLD (DOLLARS)	ATP LOSS PER HOUSEHOLD (DOLLARS)	MAIL LOSS PER HOUSEHOLD (DOLLARS)	TOTAL LOSS PER HOUSEHOLD (DOLLARS)
Philadelphia County	.01	.15*	N/A	.16
Allegheny County	.04	.12*	N/A	.16
Fayette County	.03	.04	.01	.08
Cook County**	.04	.06	.05	.15
WEIGHTED AVERAGE	$.03	$.10	$.03	$.16

N/A: Not Applicable

* Reflects combined losses resulting from both the direct delivery of ATPs to issuance agents and the mailing of ATPs to clients.

** Because Cook County's issuance system changed during the study period, the loss figures shown are not representative of current system operations. Refer to Section Nine of text for a more detailed explanation.

NOTE: Per household loss indicators are computed by dividing the total amount reported in each loss category by the TOTAL number of participating households as reported on the project area's FNS 256 report. For project areas using ATP and/or mail issuance two additional incicators--loss per ATP transaction and loss per mail issuance--are used. These indicators, shown on Exhibit III-2(2), display unit losses for only those portions of the project area's recipient population that receive benefits through over-the-counter ATP redemption and/or direct mail issuance. (See Chapter One for further explanation.)

EXHIBIT III-2(2)

DIRECT DELIVERY SYSTEM
LOSS INDICATORS
(AVERAGE MONTHLY LOSS
PER TRANSACTION/ISSUANCE)

PROJECT AREA	LOSS PER ATP TRANSACTION (DOLLARS)	ATP REPLACEMENT RATE (PERCENT)	UNMATCHED ATPS AS PERCENT TOTAL TRANSACTION (PERCENT)	LOSS PER MAIL ISSUANCE (DOLLARS)	MAIL ISSUANCE REPLACEMENT RATE (PERCENT)
Philadelphia County	.15*	.61*	.17	N/A	N/A
Allegheny County	.12*	.93*	.16	N/A	N/A
Fayette County	.04	.04	.08	.19	.39
Cook County**	.08	.92	.09	.22	.16
WEIGHTED AVERAGE	$.11	.79%	.12%	$.22	.16%

N/A: Not Applicable

* Reflects combined losses resulting from both the direct delivery of ATPs to issuance agents and the mailing of ATPs to clients.

** Because Cook County's issuance system changed during the study period, the loss figures shown are not representative of current system operations. Refer to Section Nine of text for a more detailed explanation.

unmatched ATPs. Based on this data point it would appear that Direct Delivery ATP loss may be significantly less than the study average suggests.

Because Cook County changed its issuance system three-quarters of the way through the study period, the reported losses (shown on Exhibit III-2) are not representative of the current systems (i.e., Direct Delivery and Direct Mail) used by the project area to authorize and transfer benefits to eligible households. Losses for this combined issuance system are approximately equivalent to those figures reported for mail issuance replacements on the FNS 259. However, since this project area combines both direct delivery and direct mail issuances on one reporting form (FNS 259), it is not possible to distinguish between losses occurring in the two systems.

The following table compares, by unmatched ATP category, the average loss per ATP transaction in the four study sites to national averages for the period April 1982 to March 1983.

	Dollar Loss Per Transaction	
Unmatched ATP Category	**Study Average**	**National Average**
Blank/Stolen	$ 0	< $ 0.01
Expired	0.01	0.01
Out-of-State	0	< 0.01
Duplicate (State Agency Error)	0.03	0.03
Duplicate (Original and Replacement Redeemed)	0.04	0.16
Counterfeit	0	< 0.01
Altered	0	< 0.01
"Other" (Unmatched)	0.03	0.24
	$0.11	$0.43

A review of this table reveals that lower losses were reported for the project areas in this study than for the Program as a whole. The large differences in performance are associated with duplicate client redemptions and "Other" unmatched ATPs.

Because ATP direct delivery virtually eliminates the need to replace authorization documents that have been reported lost or stolen by the client, the study sites are able to minimize losses occurring because of duplicate client redemption. Additionally, in mixed direct/regular delivery project areas, the following replacement practices reduce duplicate issuance: (1) alternate delivery after one

reported loss, (2) strict adherence to federal regulations regarding replacement authorizations, and (3) stringent client verification procedures designed to reduce client misrepresentation.

Unmatched ATPs reported in the "Other" category occur for several different reasons. These include: (1) the issuance of manually prepared non-routine ATPs that contain typographical or allotment level errors, and (2) the absence of a client authorization record at the time of reconciliation. Practices followed by the four project areas that appear to keep these losses below the national average include:

- The expedited processing of notification data
- The computerized calculation of benefit levels based on household budget data
- The existence of logic and specification edits to ensure data integrity
- The computerized generation of all replacement and non-routine issuances

This last practice when combined with the other three appears to reduce loss in two categories—duplicate issuance due to state agency error and "Other" unmatched issuances. Computerized replacement reduces loss in these categories primarily because notification data required to generate replacement and non-routine ATPs are computer edited for logical and specification errors. As stated in Section Two, these edit checks can prevent the generation of an inaccurate or unauthorized ATP if (1) a master file entry does not exist, (2) household income exceeds a specified level, (3) the client has already received a replacement or original issuance, and (4) client identifying information is inaccurate.

The Average ATP Replacement Rate In Direct Delivery Systems Is 0.79 Percent Of Total Transactions—Nationally, ATPs were replaced at the rate of 0.81 percent during the period April 1982 through March 1983. The ATP replacement rate among the four study sites ranged from a low of 0.04 percent to a high of 0.92 percent. In general, the production of a replacement ATP, be it computer-generated or manually prepared, increases the chance for error, which in turn increases the potential for loss.

In the four Direct Delivery project areas, the average replacement rate is a function of FSP agency distribution and redemption practices. Delivery sites in the project area reporting the lowest replacement rate maintain ATPs until the end of the benefit month. The other three project areas require clients to transact ATPs during a specified five day period. In these sites, if ATPs are not redeemed, they are returned to the FSP agency. This practice, designed to reduce vendor on-site maintenance of ATPs, requires eligible households to apply for a replacement authorization if they fail to pick up their ATPs within the prescribed timeframe. Furthermore, in two of the project areas, when an authorized representative receives the benefits, the original computer-generated ATP is voided and a manually prepared replacement is issued.

Average Monthly Mail Loss In Project Areas Using Mail As An Alternate Delivery Method is $0.05 Per Household; $0.22 Per Mail Issuance*—The national mail loss per issuance for the period April 1982 through March 1983 was $0.75. Two Direct Delivery project areas supplement their primary issuance system with direct mail delivery. Both sites, which experience similar losses per household and issuance, employ restrictive mail issuance practices to limit loss due to mail issuance replacements.

Mail Issuance Replacements Average 0.16 Percent Of Total Issuances—Nationally, the average replacement rate was 0.59. One Direct Delivery site reports a 0.16-percent replacement rate; the other site a 0.39 percent rate.

* * * * *

Based on a comparison of study site and national performance measures, the practices employed by the four Direct Delivery project areas appear to be effective in minimizing system vulnerabilities to loss. The table below presents a summary comparison of performance measures discussed in this section.

	Performance Measures	
Performance Indicators	Study Average	National Average
Inventory Loss Per Household	$0.03	$0.05
ATP Loss Per ATP Transaction	$0.11	$0.43
ATP Replacement Rate	0.79%	0.81%
Mail Loss Per Mail Issuance	$0.22	$0.75
Mail Issuance Replacement Rate	0.16%	0.59%

10. ISSUANCE-RELATED COSTS AVERAGE $1.49 PER HOUSEHOLD FOR DIRECT DELIVERY PROJECT AREAS

Exhibit III-3 on the next page presents the per household monthly costs of issuance for the project areas by major cost elements. These averages were calculated from site-reported cost and participation data for the period April 1982 to March 1983.

- **Project Area Categorical And Total Costs Per Household** were calculated by dividing the cost in each category reported by a project area by the number of participating households as reported on the FNS 256, Monthly Project Area Participation and Coupon Issuance Report.

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* For a comparison of loss rates experienced in project areas using direct mail as the primary method of benefit delivery to project areas using mail as an alternate method, refer to Chapter V, Direct Mail Systems

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EXHIBIT III-3

ISSUANCE COSTS
DIRECT DELIVERY SYSTEMS
(AVERAGE MONTHLY COST
PER HOUSEHOLD)

PROJECT AREA	COST ELEMENT (DOLLARS/HOUSEHOLD)				
	DIRECT LABOR	AUTOMATED DATA PROCESSING	CONTRACT ISSUANCE	OTHER DIRECT COSTS	TOTAL
Philadelphia County	0.41	0.33	1.25	0.07	2.06
Allegheny County	0.41	0.33	1.12	0.11	1.97
Cook County	0.02	0.35	0.78	0.09	1.24
Fayette County	0.19	0.14	1.12	0.08	1.53
				WEIGHTED AVERAGE	$1.49

- **Weighted Average Monthly Issuance Cost Per Household** was calculated as the sum of project area total costs divided by the sum of project area participating households as reported on the FNS 256.

The study objective with respect to administrative costs was to estimate and compare total issuance costs across project areas. To meet this objective, the individual costs of performing issuance-related activities were sorted into a standard set of issuance system resource requirements. This set includes (1) the salaries and fringe benefits paid to FSP agency personnel who supervise, perform, or monitor one or more issuance functions; (2) the automated data processing costs associated with the processing of food stamp master file data; (3) the fees paid to contract issuance agents; and (4) the miscellaneous direct costs required to support issuance activity, such as postage to mail coupons or authorization documents, and fees paid to transport or secure food stamp coupons.

When the costs of these resource requirements are added, their sum represents a reasonable estimate of the costs required to operate a project area's issuance system. However, since the mix of resources varies between project areas, it is not possible to develop "pure" estimates or averages for individual cost categories. For example, in some project areas security guard coverage is included as a direct labor cost because FSP staff are assigned to monitor issuance activities. In other project areas this cost is reported as an "other direct" (miscellaneous) cost because coverage is provided by a contract security agency.

The Average Monthly Cost Per Household Among Project Areas Is $1.49, With Project Area Total Costs Ranging From $1.24 To $2.06. Two of the four Direct Delivery project areas operate similar issuance systems and report similar per household issuance costs. The project area with the lowest administrative costs is unlike the other three in that its Direct Delivery system is (1) state-operated, which spreads FSP agency relatively fixed costs, such as supervisory staff direct labor and automated data processing charges, over a broader base; and (2) modified to include the delivery to vendors of pre-packaged coupon allotments, which tends to decrease vendor charges for benefit delivery since vendors do not have to maintain bulk coupon supplies.

11. EFFECTIVE DIRECT DELIVERY PROJECT AREAS INCLUDE CONTROLS TO PROMOTE MASTER FILE DATA INTEGRITY AND ATP VALIDITY TO REDUCE VULNERABILITY TO LOSS

The major strength of Direct Delivery issuance is that it enhances food stamp benefit accessibility to clients. Authorization documents are delivered to issuance sites, where clients sign them immediately prior to benefit transfer. Issuance offices are often operated by contract vendors, and most Direct Delivery project areas maximize potential client access to benefits by providing a variety of issuance sites located near clusters of client residences. Clients are assigned to an issuance site, usually on the basis of residence address but sometimes on the basis of client preference.

Direct Delivery project areas are especially vulnerable to losses associated with the incomplete or inaccurate master file data. Effective project areas minimize notification processing delays by providing immediate, on-site turnaround documents for certification worker review; establishing processing deadlines for updates to the master file; providing a mechanism for locating and deleting individual authorizations that have expired or require modification; and prioritizing data entry by case type or effect on benefit level. The project areas studied reduce inaccurate or incomplete household eligibility data processing by installing system logic and specification edits, and they eliminate benefit calculation errors by providing computer-generated or computer-assisted benefit calculation, often based on raw household budget data.

Lack of master file accessibility can lead issuance agents to unknowingly process fraudulent ATPs, although effective Direct Delivery systems control for this vulnerability to loss as well. They limit access to master file data when authorization records are established; conduct pre- and post-verification of all computer-generated authorization documents; and eliminate manual issuance authorization processing. Other practices employed to combat loss resulting from redemption of unauthorized ATPs include establishing vendor charge-back for such redemptions; prepackaging coupon allotments when reported issuance agent inventory losses are high; and providing explicit and detailed instructions to issuance agents and cashiers regarding potential areas of vulnerability in transacting ATPs or verifying client identity.

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CHAPTER FOUR

ON-LINE SYSTEMS

IV. ON-LINE SYSTEMS

On-Line systems are used to deliver approximately seven percent* of the benefits in the Food Stamp Program (See Appendix A). This system type is a natural extension of the original HIR system, in that the issuance record is maintained at the point of benefit delivery, client access to benefits requires presentation of an identification card to an issuance cashier, and the authorization record is updated immediately after issuance. The obvious points of system difference are in (1) the use of computer technology, which allows food stamp agencies to decentralize benefit transfer functions and handle a large volume of issuances, (2) on-line update of a client's master file record, which minimizes issuance errors occurring because of notification processing delays, and (3) the immediate reconciliation of issued benefits to authorized benefits, which substantially reduces the unauthorized issuance of FSP benefits.

Our study included five project areas that have been identified to use On-Line systems effectively. Exhibit IV-I on the next page displays average monthly participation data for each On-Line project area, and the type of issuance agent employed to transfer benefits. Highlighted below are the major operating similarities and differences found among the five project areas studied.

- Four of the five On-Line project areas are supported by a state-operated computer system. In three of these project areas, benefit transfer is performed by FSP agency staff. The fifth project area is part of an FNS-sponsored demonstration project. The issuance system supporting this project is both managed and operated by a contractor who subcontracts with another vendor to deliver food stamp coupons.

- In three project areas, the On-Line system is supplemented by a direct mail operation. In all three areas, coupon mailing is restricted to either specified population groups (e.g., the elderly) or recipients residing in geographically-remote locations.

The methods and practices used by these project areas to minimize system vulnerabilities to loss are described in the first eight sections that follow. The remaining three sections present data on reported benefit loss and administrative costs of issuance, as well as a summary of On-Line system strengths and weaknesses.

1. DELAYED PROCESSING OF HOUSEHOLD ELIGIBILITY DATA

Delayed processing of notification data results in a temporary lack of information regarding the eligibility of a particular client for benefits. This can occur when either data management or certification staff do not process household notification data in a timely fashion. For example, an unprocessed change in household income could result in either an over- or under-issuance. Likewise, failure to

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EXHIBIT IV-1

ON-LINE PROJECT AREA CHARACTERISTICS

PROJECT AREA	PROGRAM ADMINISTRATION	AVERAGE MONTHLY NUMBER/PERCENT OF PARTICIPATING HOUSEHOLDS			AVERAGE MONTHLY VALUE/PERCENT OF ISSUANCE			TYPE OF ISSUANCE AGENT
		ON-LINE	MAIL	TOTAL	ON-LINE	MAIL	TOTAL	
Wayne County, Michigan	State Administered State Operated	184,098 (100%)	--	184,098	$19,373,667	--	$19,373,667	Contractor - Other
New York City, New York	City Administered Contractor Operated	8,662 (100%)	--	8,662	$ 639,914	--	$ 639,914	Contractor - Financial Agency
Duval County, Florida	State Administered State Operated	18,996 (85%)	3,373 (15%)	22,369	$2,611,948 (96%)	$120,274 (4%)	$ 2,731,500	Government Agency
Bernalillo County, New Mexico	State Administered State Operated	13,779 (97%)	464 (3%)	14,243	$ 1,763,599 (96%)	$ 64,806 (4%)	$ 1,828,405	Government Agency
Dona Ana County,	State Administered	2,563	1,382	3,945	$ 344,753	$227,203	$ 571,956	Government Agency

notify the system of a termination of food stamp benefits could result in an unauthorized issuance.

All the effective On-Line systems studied are responsive to FSP requirements for prompt handling of notification data. Since these sites have computerized eligibility files, they have developed automated procedures to control and expedite data processing. Four techniques appear to reduce vulnerability related to delays in establishing or updating client authorization records. (NOTE: See Chapter VI, HIR Systems, for a discussion of techniques applicable to manual systems).

- **One-Day Turnaround Time**—All of the On-Line project areas attempt to process notification data within one day after receipt from the certification unit. In all of the sample project areas, this is facilitated by having data entry capability in or adjacent to certification areas.

- **Batch Control**--All of the sample project areas employ a numbering system to prevent documents from being lost and to monitor timely completion of corrections and updates. Such systems automatically assign a document number or date to each notification form. This information assists project area staff in identifying where data are stored and when the information was processed. Project areas that have centralized data entry use a clerical support unit to batch, inspect, and verify notification transactions.

- **Processing Deadlines**—All the effective On-Line project areas establish an end-of-month cutoff date for processing updates to the authorization master file, thus ensuring that all required changes are made before establishment of an on-line issuance record. Failure by certification staff to adhere to these cutoff dates may result in administrative errors that are subsequently reported as deficiencies in a certification unit's performance rating.

- **Master File Update Prioritization**—Should a backlog of notification input documents occur, data entry staff in all project areas are instructed by their supervisors to process new cases and changes that affect benefit levels first. This practice ensures that processing dalays do not result in the overissuance or unauthorized issuance of food stamp benefits.

2. INACCURATE OR INCOMPLETE PROCESSING OF HOUSEHOLD ELIGIBILITY DATA

The complex, high-volume data collection systems that support On-Line systems are vulnerable to inaccurate and fraudulent input. All of the project areas visited use a variety of computer edits and security procedures to control the access to and content of household notification data:

- **Specification Edits**—All systems provide edit checks that prohibit the entry of data that fall outside specified values. For example, a file will not be updated if an input transaction does not contain a value for "Family Income" or if the value is not numeric.

- **Logical Edits**—All systems provide some form of logical checks of the notification information entered. Most commonly, these systems check to see that:

  - Only one household record exists for a given social security number
  - Only one household record exists for a given address and apartment
  - A zip code is within project area boundaries

  Project areas with the most sophisticated information systems have developed logical edits that can

  - Automatically place a mail issuance household on alternate delivery if the client has reported a previous mail loss
  - Reject a request for benefit authorization if the household has not received pre-registration clearance. Such clearance indicates that neither the head of household nor household members are currently participating in the Food Stamp Program
  - Identify data entry or certification errors by rejecting requests for (1) more than one routine issuance per month, and (2) a replacement allotment that, based on the master file record, is not the same as the original amount authorized and issued
  - Reject requests for more than two replacements within a six-month period

- **Automated Benefit Calculation/Verification**—All computer systems provide the capability either to compute household benefit amounts automatically or to check the benefit allotment computed manually by the certification worker. For all these project areas it is possible automatically to update benefit amounts when eligibility criteria are revised.

- **Computer Access Controls**—All systems have built-in security features that limit access to notification and authorization data to selected personnel. For example, changes to the master file can be made only by data entry personnel, each of whom is assigned a password and operator number.

3. LOSS OR THEFT OF AUTHORIZATION DOCUMENTS

One of the most attractive features of On-Line systems is the elimination of individual paper authorization documents that can be falsified or transacted fraudulently. This feature substantially reduces the likelihood that clients, employees, or third parties will defraud the system by attempting to obtain benefits using stolen, counterfeit, or altered authorization documents.

Additionally, system programming can automatically delete or place a hold on authorization records that have expired or that require additional action by the certification worker.

Also, On-Line systems require that a master file entry exist prior to benefit transfer. This feature, when combined with on-line reconciliation of benefits issued to benefits authorized, minimizes the possibility of duplicate and unmatched transactions. Instances in which unauthorized transactions can occur are (1) when a client receives a replacement transaction card for an original card that was reported lost, and before a hold can be placed on the "lost" card, the client or another individual uses the "lost" card to receive unauthorized benefits, and; (2) when delayed processing of household notification data results in an overissuance or unauthorized issuance.

On-Line issuance systems have the capacity to deliver benefits within federally-prescribed timeframes for routine and non-routine issuances without manual authorization. Three of the On-Line project areas have eliminated all manual issuance authorizations. The other two project areas have a mechanism to accept manually prepared authorizations that, when transacted, are entered into the automated system. These authorizations are rare and require several layers of approval before they can be transacted.

Duplicate redemptions are prevented quite effectively in On-Line systems when the computer is operating. System downtime during issuance hours can negate the On-Line system's strongest asset, however, unless effective back-up procedures are in place. In the systems studied, two methods are used to avoid potential losses during periods of system failure:

- The most reliable alternative is to activate a parallel computer system during periods of primary system downtime. This alternative, used in one project area (the New York City demonstration system), eliminates downtime but is expensive. It might not be a cost-effective approach for most project areas considering implementation of an On-line issuance system.

- Another alternative is to close down issuance windows until the system is again operational. This practice is followed by two project areas. The other two sites employ this alternative only if downtime is anticipated to be less than two hours. For periods greater than two hours, these project areas issue authorization documents manually from back-up, computer-printed issuance rosters. When the system becomes operational, all manual issuances are entered before serving additional clients.

- None of the project areas reported that excessive system downtime results in either unnecessary restriction of client access or duplicate issuance.

4. CLIENT MISREPRESENTATION/FRAUD AT BENEFIT DELIVERY POINT

A plastic card containing an encoded magnetic strip is the most technologically advanced method of client verification used among the five On-Line systems visited. Upon presentation by the client, the identification card's encoded data are read electronically to produce an on-line authorization record. Magnetic cards are used in two of the five project areas. Procedures followed to ensure that the individual presenting the card is the intended recipient include:

- Laminating the client's photograph onto the front of the identification card
- Providing each recipient with both a food stamp identification card and a plastic transaction card

Standard, non-photo identification cards are used in the remaining three project areas. Authorization record access is obtained through entry of the recipient's food stamp identification number (social security number). In all five project areas, recipients must sign either a computer-printed authorization document or an issuance register before benefits are transferred. As in other over-the-counter issuance systems, an additional form of identification with the client's photograph is requested if the signature does not match the client's food stamp ID card.

In four project areas, authorized representatives must be recorded in the client's master file record, which is displayed on the issuance screen. Authorized representatives then must follow the signature comparison procedure outlined above.

Two of the project areas conduct an additional address verification check before issuance. This check requires that individuals presenting identification cards for benefit transfer identify their street address upon cashier request. Since the identification card does not contain the household address, this procedure potentially protects against issuance of benefits to unauthorized individuals. It also alerts issuance staff to a change in household address. Such changes are forwarded to the client's certification worker, who is responsible for updating the household master file.

5. CASHIER ERROR RESULTING IN OVERISSUANCE

Overissuance can occur as a result of cashier error in delivering coupons to clients. It appears that a combination of redundant cashier practices combined with an even client flow reduces overissuances. Four practices were reported to be effective in this area:

- **Double Counting**—In all five project areas, coupon books are counted twice prior to benefit transfer—first, when removed from working inventory and second, when handed to the recipient. Additionally, the client is requested to recount the coupon books before leaving the issuance window.
- **Pre-Benefit Transfer Coupon Book Separation**—All five sites noted a problem with the two and seven dollar coupon books. Because these books are bound with glue, there is a tendency for them to stick

together. An additional effort to separate book denominations prior to issuance was reported to reduce overissuance of these coupon book denominations.

- **Staggered Issuance**—When issuance is concentrated during the first two or three days of the month, cashiers must transfer a high volume of benefits in a short time period. This high issuance volume appears to result in cashiering errors. Staggered issuance, practiced in the five On-Line project areas, permits an even client flow that is reported to reduce cashiering errors.

- **Computerized Highlighting Of Coupon Book Denominations**—All the systems highlight coupon book denominations visually at the time of benefit transfer, which reportedly assists cashiers in obtaining the correct books from inventory.

6. LOSS OR THEFT OF MAIL ISSUANCE ALLOTMENTS

Three On-Line project areas use mail as a secondary method of benefit delivery. Several practices were found to minimize losses resulting from coupons reported lost or stolen in the mail. (NOTE: For a more detailed description of practices designed to reduce mail loss, refer to Chapter V, Direct Mail Systems).

- **Certified Delivery**—Two of the three project areas certify all allotments over $325. This limit is based on individual project area experience with regard to the occurrence of mail loss.

- **Alternate Delivery Imposed For Replacement Issuance**—Two project areas require that clients receive replacement mail issuances at an FSP certification office to ensure that the replacement is received and to verify the accuracy of the client's address and reason for loss.

- **Restriction Of Mail Issuance To Remote Project Area Locations**—Two sites limit mail issuance to locations that are located far enough away from an issuance location to pose a hardship for the recipient population.

- **Signed Receipt Of Delivery**—One of the project areas requires that clients return signed receipts notifying the FSP office that the issuance has been received by the client. If a signed receipt is not returned within ten days of mailing, clients are eliminated from the next month's mailing and are required to pick up coupons at a local issuance site.

- **Analysis Of Mail Loss And Returns**—In all project areas, issuance staff conduct routine analyses of reported mail losses, which are reported in turn to the Postal Service for further investigation. Such analyses, which are summarized on the FNS 259, result in the identification of delivery areas that require special handling.

  By conducting routine analyses of mail returns, project area staff can begin also to identify patterns that may promote loss. For example, a project area that experiences a high rate of returned allotments

should monitor such returns to pinpoint the reason for nondelivery. Reasons include (1) failure by certification staff to submit timely notification updates, (2) delays in processing notification updates, and (3) inadequate instructions to clients regarding the reporting of address changes.

7. THEFT FROM COUPON STORAGE OR WORKING INVENTORY

This vulnerability affects all project areas and issuance locations where coupons are kept. In small, isolated project offices, this vulnerability may be compounded by the fact that insufficient on-site security is available for monitoring and safeguarding coupon supplies. Practices found to prevent inventory theft in all project areas are:

- **Off-Site Bulk Storage**—Three study sites maintain a three-to six-month bulk supply of coupons. Because of inadequate on-site security, the other two project areas requisition their monthly coupon supply from a state-maintained and centralized bulk issuance site.

- **Limited Access, Dual Verification**—All project area issuance and distribution sites follow FNS regulations and guidelines regarding the disbursement, receipt, transfer, and destruction of food coupons. Inventory activities are carried out by at least two authorized staff members who are responsible for verifying coupon shipments and inventory disbursements. Additionally, only a limited number of project area staff have access to coupon supplies—typically, the project area administrator, issuance supervisor, and head cashier.

- **Issuance Area Security**—All project areas take added precautions to ensure that coupon inventories are safeguarded against potential over-the-counter theft. Typical practices include:

  - Separating working inventories for each issuance cashier to monitor the accuracy of individual cashiering activities

  - Using on-site combination lock safes or locking inventory drawers to safeguard daily and working coupon supplies

  - Enclosing and limiting access to cashiering cages to prevent theft of coupons and authorization records

  To reduce further the risks associated with maintaining on-site coupon supplies, three project areas have added one or both of the following controls:

  - Installing a security alarm system that alerts a local contract security agency or police to an attempted robbery or suspicious disturbance, (including such devices as sound and motion detectors located in coupon storage area; silent alarms located in the cashier and receptionist areas) to signify both inventory tampering and suspicious disturbances; vault and issuance area surveillance cameras; and time-delayed combination lock vaults).

- Assigning police or security guard escorts during the transfer of coupons between bulk storage and the issuance site

- **Vendor Security**—In both project areas with contracted issuance, vendor agreements require all issuance agents to maintain adequate records and internal controls that ensure proper coupon issuances and to maintain daily records of coupon books received, issued, and on hand. Vendor records are subject to periodic audit by the USDA, State FSP, or vendor.

8. DELAYED OR INCOMPLETE RECONCILIATION OF ISSUANCES

All five On-Line systems are capable of producing daily reconciliation reports that compare documented issuance to authorized issuance, and that provide print-outs for reconciling documented issuance to remaining inventory levels. These reports facilitate the preparation of the required FNS 250 report, and they also provide project area managers with detailed information on the performance of individual cashiers and issuance sites.

9. BENEFIT LOSSES PER HOUSEHOLD AVERAGE $0.03 IN SINGLE ON-LINE SYSTEMS; $0.06 IN MIXED ON-LINE/DIRECT MAIL SYSTEMS

Benefit loss among project areas using On-Line systems is based on data reported during the study period on the FNS 250, FNS 259, and FNS 256 reports. The following indicators (displayed on Exhibit IV-2 and explained in Chapter I) are used in this section to compare the loss experienced in the five On-Line project areas:

- **Inventory Loss Per Household** (FNS 250, Line 23, Value of Issuance Difference divided by FNS 256, Number of Participating Households)

- **ATP Loss Per Household and Transaction** (FNS 46, Line 10, Value of Unmatched ATPs Transacted divided by FNS 256, Number of Participating Households and FNS 46, Line 8, Total ATPs Transacted)

- **Mail Loss Per Household and Issuance** (FNS 259, Column 7e, Value of Replacements divided by FNS 256, Number of Participating Households and FNS 259, Column 7a, Number of Mail Issuances)

- **ATP Replacement Rate** (FNS 46, Line 9, Total Replacement ATPs Transacted divided by FNS 46, Line 8, Total ATPs Transacted)

- **Mail Issuance Replacement Rate** (FNS 259, Column 7b, Number of Replacements divided by FNS 259, Column 7a, Number of Mail Issuances)

- **Total Loss Per Household** (FNS 250, Line 23, Value of Issuance Difference plus FNS 46, Line 10, Value of Unmatched ATPs Transacted, plus, if applicable, FNS 259, Column 7e, Value of Replacements divided by FNS 256, Number of Households)

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EXHIBIT IV-2

ON-LINE SYSTEM LOSS INDICATORS (AVERAGE MONTHLY LOSS PER HOUSEHOLD AND ISSUANCE)

PROJECT AREA	INVENTORY LOSS PER HOUSEHOLD (DOLLARS)	MAIL LOSS PER HOUSEHOLD (DOLLARS)	TOTAL LOSS PER HOUSEHOLD (DOLLARS)	MAIL LOSS PER MAIL ISSUANCE (DOLLARS)	MAIL ISSUANCE REPLACEMENT RATE (PERCENT)
Wayne County	.01	N/A	.03*	N/A	N/A
New York City	.09	N/A	.09	N/A	N/A
Duval County	.03	.03	.06	.21	.44
Bernalillo County	.02	.01	.04	.45	.80
Dona Ana County	.01	.16	.17	.50	.64
WEIGHTED AVERAGE	$.02	$.04	$.06	$.30	.40%

* $0.02 per household is attributable to losses resulting from duplicate on-line authorizations. (See Section Nine for explanation.)

N/A: Not Applicable

NOTE: Per household loss indicators are computed by dividing the total amount reported in each loss category by the TOTAL number of participating households as reported on the project area's FSN 256 report. For project areas using mail issuance an additional indicator--loss per mail issuance--is used. This indicator displays unit losses for only that portion of the project area's recipient population that receive benefits through direct mail issuance. (See Chapter One for further explanation.)

Individual loss and replacement rates were calculated using total reported values for the project area for the period April 1982 through March 1983. Column averages were weighted by the total number of households or transactions processed by each of the five project areas during the twelve-month study period.

The Average Monthly Inventory Loss Per Household Among the On-Line Project Areas Included In the Study is $0.02. Inventory losses are consistent across four of the five project areas. In all sites, loss was attributed to cashier error. On the average, the five On-line project areas performed below the national inventory loss per household of $0.05.

Data On Unmatched Issuances Are Not Routinely Reported. On-Line systems are not generally required to report data on unmatched issuances. However, one of the project areas does keep information on the number of duplicate transactions. Duplicate transactions in this On-Line system during each month of the study period averaged $0.02 per household. This loss occurs when a client reports a lost transaction card and receives a replacement, and before the original card can be voided, it is transacted by either the client or another individual.

Another project area provided documentation corresponding to the study period that revealed only one reported request for a replacement. This request was investigated and the replacement subsequently denied.

Average Monthly Mail Loss in Mixed Systems (On-Line/Direct Mail) is $0.04 per Household; $0.30 Per Mail Issuance.* Nationally, the average loss per mail issuance for the period April 1982 through March 1983 was $0.75. Mail loss per household (issuance) among the three mixed project areas ranges from $0.01 ($0.21) to $0.16 ($0.50).

Mail Issuance Replacements Average 0.40 Percent of Total Issuance. Nationally, the average monthly replacement rate was 0.59 percent. Among the three mixed project areas studied, this monthly rate ranges from 0.44 to 0.80 percent.

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Based on a comparison of study site and national performance measures, the practices employed by the five On-Line project areas appear to be effective in minimizing system vulnerabilities to loss. The table below presents a summary comparison of performance measures discussed in this section.

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* For comparison of loss rates experienced in project areas using direct mail as the primary method of benefit delivery to project areas using mail as an alternate method, refer to Chapter V, Direct Mail Systems.

Performance Indicators	Performance Measures: Study Average	National Average
Inventory Loss Per Household	$0.02	$0.05
Mail Loss Per Mail Issuance	$0.30	$0.75
Mail Issuance Replacement Rate	0.40%	0.59%

10. ISSUANCE-RELATED COSTS AVERAGE $1.91 PER HOUSEHOLD FOR ON-LINE PROJECT AREAS

Exhibit IV-3 on the next page presents the per household monthly costs of issuance for the project areas by major cost elements. These averages were calculated from site-reported cost and participation data for the period April 1982 to March 1983.

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EXHIBIT IV-3

ISSUANCE COSTS ON-LINE SYSTEMS
(AVERAGE MONTHLY COST PER HOUSEHOLD)

PROJECT AREA	COST ELEMENT (DOLLARS/HOUSEHOLD)				
	DIRECT LABOR	AUTOMATED DATA PROCESSING	CONTRACT ISSUANCE	OTHER DIRECT COSTS	TOTAL
Wayne County	0.40	0.34	1.08	N/A	$1.82
New York City	N/A*	2.02	2.25	N/A	4.27
Duval County	1.73	0.09	N/A	0.11	1.93
Bernalillo County	1.04	0.31	N/A	0.01	1.36
Dona Ana County	1.10	0.19	N/A	0.21	1.51
				WEIGHTED AVERAGE	$1.91

N/A: Not Applicable

* Data entry for the New York EPFT demonstration is accomplished by loading a computer tape of eligible households from the central social services computer system to a separate EPFT computer. The cost for this operation is included in the contractor's ADP fee. Hence, the direct labor cost for initial data entry by FSP staff is not also included. In an operational system only the data entry cost would be incurred.

household cost almost two-and-a-half times greater than the highest cost reported among the other four project areas. Unlike the other On-Line project areas, New York City (1) employs a contractor to manage and operate both a primary and back-up computer system, and (2) pays over-the-counter issuance vendors a transaction fee that is twice as much as that reported by any other study site. Additionally, the computer system supporting the demonstration project area is intended eventually to serve a significantly larger caseload than the current one.

11. EFFECTIVE ON-LINE PROJECT AREAS CONTROL DATA VALIDITY AND HARDWARE RELIABILITY TO REDUCE VULNERABILITY TO LOSS

The major strength of an On-Line system is that it provides instant access to food stamp master file data. Duplicate and unauthorized issuances can be virtually eliminated through on-line inquiry and update capabilities, and benefit reconciliation can be performed automatically.

On-Line systems are more vulnerable to loss resulting from master file errors because of system reliance on the automated data base. Effective systems build in a number of controls to assure master file validity:

- Notification processing delays are minimized by providing immediate turnaround documents for certification worker review, establishing processing deadlines for master file updates, and prioritizing data entry on the basis of case type or change impact on benefit level.

- Inaccurate or incomplete processing of household eligibility data is reduced by installing system logic and specification edits. Benefit calculation errors are controlled by providing automatic benefit calculation programs.

- Establishment of fraudulent authorization records can be prevented by limiting access to master file data.

Another potential for loss in an On-Line system is unreliable hardware. Computer breakdowns can prevent data processing and inquiry functions from being completed. One project area controls for this vulnerability by operating two separate computer mainframes simultaneously, thereby reducing the probability that a hardware breakdown will affect ongoing operations. Other project areas have instituted detailed back-up and recovery procedures to ensure that data and processing time losses are minimized in the event of hardware failure.

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CHAPTER FIVE

DIRECT MAIL SYSTEMS

V. DIRECT MAIL SYSTEMS

The Direct Mail system is used to deliver about 26 percent of the benefits in the Food Stamp Program (See Appendix A). In this system, routine and non-routine coupon allotments are mailed directly to the client from a centralized delivery point. Coupon mailing is authorized via a computer-generated or manually prepared list of eligible households. In most cases, neither the client's signature nor identification is required to receive food stamps. The system generally operates in areas without large urban centers. It is an attractive alternative in project areas with widely dispersed client populations. Since client accessibility is maximized, many states supplement other issuance systems with Direct Mail to provide better service for elderly or disabled clients.

Our study included eight project areas that have been identified to use Direct Mail systems effectively. Exhibit V-1 on the next page displays average monthly participation data for each Direct Mail project area, and the type of issuance agent employed to transfer benefits. Highlighted below are the major operating similarities and differences found among the eight Direct Mail project areas studied.

- All of the Direct Mail project areas issue benefits from computer-generated authorization listings.
- In three project areas, direct mail issuance is provided by centralized, state-operated issuance units, one of which uses an automated coupon stuffing machine.
- Two project areas contract with an out-of-state vendor to process direct mail issuances. A third project area contracts with another government agency to prepare and distribute mail issuances, and to deliver over-the-counter benefits.
- Three project areas use secondary over-the-counter systems to supplement their direct mail operation. These secondary systems include: vendor direct delivery of ATP cards; regular ATP card issuance; and on-line issuance. The remaining project areas use an alternate delivery mechanism, such as certified mail or mandatory certification office pick-up, to deliver benefits to clients reporting repeated mail losses.

The methods and practices used by Direct Mail project areas to minimize system vulnerability to loss are described in the sections that follow. The remaining three sections present data on reported benefit loss and administrative costs of issuance, as well as a summary of Direct Mail system strengths and weaknesses.

1. DELAYED PROCESSING OF HOUSEHOLD ELIGIBILITY DATA

Delayed processing of notification data results in a temporary lack of information regarding the eligibility of a particular client for benefits. In certain situations this may result in unauthorized issuance to the client. Unauthorized issuance can occur when either certification or data management staff fail to update the

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EXHIBIT V-1

DIRECT MAIL PROJECT AREA
CHARACTERISTICS

PROJECT AREA	PROGRAM ADMINISTRATION	AVERAGE MONTHLY NUMBER/PERCENT OF PARTICIPATING HOUSEHOLDS			AVERAGE MONTHLY VALUE/PERCENT OF ISSUANCE			TYPE OF ISSUANCE AGENT
		MAIL	OVER-THE-COUNTER	TOTAL	MAIL	OVER-THE-COUNTER	TOTAL	
Augusta County, Virginia	State Administered City And County Operated	1,864 (100%)		1,864	$ 195,140 (100%)		$ 195,140	Contractor - Other
Shawnee County, Kansas	State Administered State Operated	4,894 (100%)		4,894	$ 510,768 (100%)		$ 510,768	Government Agency
Outagamie County, Wisconsin	State Administered County Operated	2,190 (100%)		2,190	$ 195,445 (100%)		$ 195,445	Government Agency
Kennebec County, Maine	State Administered State Operated	5,543 (100%)		5,543	$ 630,444 (100%)		$ 630,416	Government Agency
Maricopa County, Arizona	State Administered State Operated	33,252 (100%)		33,252	$5,131,916		$5,131,916	Government Agency
Ada County, Idaho	State Administered State Operated	4,180 (93%)	300 (7%)	4,480	$ 507,661 (93%)	$ 35,325 (7%)	$ 42,968	Contractor-Other
Elmore County, Alabama	State Administered County Operated	1,497 (87%)	232 (13%)	1,729	$ 172,690 (82%)	$ 42,540 (18%)	$ 215,230	Government Agency
San Joaquin County, California	State Administered County Operated	12,798 (83%)	2,657 (17%)	15,455	$ 881,873 (66%)	$450,505 (34%)	$1,332,378	Contractor - Other

client's master file record in a timely fashion. For example, an unprocessed change in household income could result in either over- or under-issuance. Likewise, failure to notify the system of a termination of food stamp benefits could result in an unauthorized issuance.

All the effective Direct Mail systems studied are responsive to FSP requirements for prompt handling of notification data. Since these sites have computerized eligibility files, they have developed automated procedures to control and expedite data processing. Four techniques appear to reduce vulnerability related to delays in establishing or updating client authorization records. (NOTE: For a discussion of techniques applicable to manual systems, refer to Chapter VI, Household Issuance Record Systems.)

- **One-Day Turnaround Time**—Most of the Direct Mail project areas attempt to process notification data within one day after receipt from the certification unit. In all but one of the sample project areas, this is facilitated by having data entry capability in or adjacent to the certification areas.

- **Batch Control**—All of the sample project areas employ a numbering system to prevent documents from being lost and to monitor timely completion of corrections and updates. Such systems automatically assign a document number or date to each notification form. This information assists project area staff in identifying where data are stored and when the information was processed. Additionally, project areas that have centralized data entry use a clerical support unit to batch, inspect, and verify notification transactions.

- **Processing Deadlines**—All the effective Direct Mail project areas establish an end-of-month cutoff date for processing updates to the authorization master file, thus ensuring that all required changes are made prior to printing mail issuance eligibility rosters. Failure by certification staff to adhere to these cutoff dates may result in administrative errors that are subsequently reported as deficiencies in a certification unit's performance rating. Project areas also provide a procedure for locating and "pulling" individual allotments that need updating after the cutoff date but prior to the monthly mailing. Typically, this involves a certification worker notifying issuance staff in writing that a client's mail benefits be (1) held pending further instructions, (2) diverted to a local office for client pick-up, (3) mailed to a different address, or (4) voided due to a change in client circumstances.

  To minimize processing delays, one state-operated project area uses a vendor to provide back-up data entry services. Typically, the vendor is able to process data within one day of receipt.

- **Setting Priorities For Master File Updates**—Should a backlog of notification input documents occur, data entry staff in all project areas are instructed by their supervisors to process new cases and changes that affect benefit levels first. This practice ensures that processing delays do not result in the overissuance or unauthorized issuance of food stamp benefits.

2. INACCURATE OR INCOMPLETE PROCESSING OF HOUSEHOLD ELIGIBILITY DATA

The complex, high-volume data collection systems that support Direct Mail systems are vulnerable to inaccurate and fraudulent input. All of the project areas visited use a variety of computer edits and security procedures to control the access to and content of household notification data.

- **Specification Edits**—All systems provide edit checks that prohibit the entry of data that fall outside specified values. For example, a value will not be updated if an input transaction does not contain a value for "Family Income" or if the value is not numeric.

- **Logical Edits**—All systems provide some form of logical checks of the notification information entered. Most commonly, these sytems check to see that:

  - Only one household record exists for a given social security number

  - Only one household record exists for a given address and apartment

  - A zip code is within project area boundaries

  Project areas with the most sophisticated information systems have developed logical edits that can

  - Automatically place a household on alternate delivery if the client resides in a high-risk zip code location, or if the client has reported a previous mail loss.

  - Reject a request for benefit authorization if the household has not received pre-registration clearance. Such clearance indicates that neither the head of household nor household members are currently participating in the Food Stamp Program.

  - Identify data entry or certification errors by rejecting requests for (1) more than one routine issuance per month, and (2) a replacement allotment that, based on the master file record, is not the same as the original amount authorized and issued.

  - Reject requests for more than two replacements within a six-month period.

- **Automated Benefit Calculation/Verification**—All computer systems provide the capability either to compute household benefit amounts automatically or to check the benefit allotment computed manually by the certification worker. Several systems support automatic update of benefit amounts when eligibility criteria are revised.

- **Computer Access Controls**—All systems have built-in security features that limit access to notification and authorization data to selected personnel. For example, changes to the master file can be made only by data entry personnel, each of whom is assigned a password and operator number.

3. LOSS OR THEFT OF AUTHORIZATION DOCUMENTS

In a Direct Mail system, this vulnerability is minimized by the methods used to prepare and distribute authorization documents and to issue benefits. All of the project areas visited issue coupons from a computerized listing of eligible households that is accompanied by pre-printed envelopes, address labels, or mailing inserts. These documents are generated on a daily and monthly basis and contain all relevant data required to prepare coupon allotments, including allotment amount, coupon book denominations, postage type, and postage weight/amount.

Once received by the issuance office, issuance documents are difficult to falsify or alter by issuance staff. To ensure that authorization records are not tampered with at the point of issuance, however, all sites follow similar procedures to safeguard and verify issuance documentation.

- **Verification Of Eligibility Listings**—Before issuing benefits, staff in all project areas receive a print-out of authorized issuances. This print-out, based on information contained in the food stamp master file, is updated (1) nightly to produce a listing of clients eligible to receive daily benefits (e.g., expedited, supplemental, retroactive), and (2) monthly to produce a listing of routine eligibles. Listings and accompanying mailing devices are verified by issuance staff prior to coupon stuffing. Discrepancies between the listings and the mailing documents are noted on the computer listing and reported to either the data processing center or certification office staff.

- **Manual, Non-Routine Issuances**—In one project area, manual authorizations are used to process expedited benefits. Three controls are used to safeguard against the establishment of false or inaccurate authorization documents:

  - **Manual Issuance Control Ledger**—All manual issuance authorization documents (e.g., ATPs) generated by the certification unit are recorded on a standardized form that contains client and certification worker identifying information. Authorization documents are kept in a safe, with access limited to the certification unit supervisor and one unit clerk.

  - **Supervisory Approval**—Manually prepared authorization documents require the signature of both the certification worker and his/her supervisor.

  - **Issuance Unit Verification**—The certification unit supervisor is required to notify the issuance unit by telephone that a request for expedited benefits is being prepared. During this phone call, issuance staff record the request on an expedited issuance

register that contains client identifying information (e.g., case number, name, address) and the allotment amount. Upon receipt, the written request is compared to the issuance register. Any discrepancies are resolved through a telephone call to the certification unit clerk responsible for preparation of the authorization request.

4. CLIENT MISREPRESENTATION/FRAUD AT BENEFIT DELIVERY POINT

In Direct Mail systems there is no requirement for clients to show identification before benefit delivery. However, when coupons are delivered via certified mail, clients who miss the delivery must go to the local post office to receive their allotment. Depending on post office practice, the postal clerk may require a valid food stamp identification card before the client signs for the certified delivery.

5. CASHIER ERROR RESULTING IN OVERISSUANCE

It appears that either redundant cashier practices or automated benefit preparation combined with an evenly planned issuance cycle reduces both overissuance and missed delivery deadlines. Three practices were observed and reported to reduce cashiering errors resulting in overissuance:

- **Manual Production Using Dual Verification Procedures**—In project areas using issuance staff to stuff and seal coupon allotments manually, it appears that a team approach to verification and preparation reduces errors resulting in overissuance. This approach typically requires that one person stuff a coupon allotment while another individual verifies the allotment amount. In one project area, a second verification is conducted at the end of each issuance line (i.e., batch of 100 issuances). This verification compares batch totals against remaining inventory to determine if over- or under-issuance has occurred. Any discrepancies found require the rechecking of each envelope until the error is found.

- **Automated Production Verification**—In one automated system, verification is conducted automatically at the end of each machine run of issuance control cards. Based on a batch control card, a readout of the number of coupon books issued is displayed on a digital machine counter as well as on the batch control card. At the end of each run, remaining inventory is removed from the stuffing machine and counted. Any discrepancies found require the manual opening and counting of all prepared allotments until the error is found.

- **Staggered Issuance**—All project areas in the study follow a staggered issuance cycle based on the last digit of a client's case number, date of birth, or other sort method. Typically, monthly issuance is staggered over a 10-to 15-day period with non-routine issuance occurring daily. Two of the project areas utilize pre-stuffing to spread the workload evenly throughout the month. Pre-stuffing is reported to maintain staffing at a fairly constant level throughout the month, to ensure timely benefit delivery, and to reduce cashiering errors that can occur when deadlines are missed.

- **Manual Pre-Stuffing**—One of the project areas reviews monthly issuance listings to arrive at routinely issued benefit allotment amounts. During slack periods, envelopes are pre-stuffed with standard allotments into plain envelopes and stored in the vault until required for issuance.

- **Automated Pre-Stuffing**—In one automated system, eligible households are pre-selected during the first week of each benefit month. This pre-selection (for the following month) ensures that workload of both issuance staff and the stuffing machine is distributed evenly. A final selection is performed at the end of the month to identify cases that require pulling (i.e., client moved, recertification denied) or adding to the pre-selection run.

6. LOSS OR THEFT OF MAIL ISSUANCE ALLOTMENTS

The greatest vulnerability in a Direct Mail system is, quite obviously, the mailing of coupons. No matter how well a system protects against loss, there are too many external vulnerabilities that prohibit loss from being totally eliminated. The procedures described below, which include precautions taken to ensure both safe delivery to the Postal Service and client receipt, can be effective in reducing loss due to replacement issuances. (NOTE: Refer to either Chapter II (ATP Systems), Chapter III (Direct Delivery Systems), Chapter IV (On-Line Systems), or Chapter VI (HIR Systems), for a description of practices used to control loss in project areas using mail as a secondary method of benefit delivery).

- **Mail Security**—A variety of mail security practices were found to be effective in ensuring safe delivery of mail allotments from the FSP agency to the post office.

  - **Pre-sorted And Sealed First Class Mail**—There are two advantages to pre-sorting mail by zip code. The first is that mailing costs are reduced by approximately $0.03 per issuance. The second, and more important, is that pre-sorted mail reduces the number of times an envelope is handled after it leaves the FSP agency. By sealing pre-sorted envelopes in locked mail pouches or banded trays, another layer of security is imposed—the contents of the bags are concealed as they travel through a central processing hub, thus thwarting internal post office theft. The majority of project areas use this practice to mail monthly routine issuances that do not require special handling (e.g., certified delivery or alternate over-the-counter delivery).

  - **Coupon Delivery To The Post Office**—All of the study sites use one of the practices described below to prevent potential loss or theft of coupons while enroute to the post office.

    .. Develop an agreement with the local police department or in-house security staff to provide an escort to the post office on a regular basis

- Contract with an armored car service to pick up and deliver envelopes to the Postal Service

- Require at least two FSP employees to deliver envelopes to the post office, stagger delivery times, and designate alternate delivery routes if a security escort or armored car service is not feasible

All three practices require the use of a delivery receipt that must be signed and dated by the receiving Postal Service employee. This receipt acknowledges that a shipment of food stamp envelopes with a certain value were delivered to the Postal Service on a given date. In the event that an entire or partial shipment of envelopes is reported lost, this receipt is used by the FSP agency and the Postal Inspector's office to initiate investigative action.

- **Certified Mail**—Seven of the project areas use certified mail to deliver benefits to eligible households. This method of delivery is used typically to mail (1) replacement benefits, (2) allotments in excess of a project area specified amount, (3) benefits to high risk locations or at-risk populations, and (4) benefits to clients who report repeated loss of mail issuances.

There are two types of certified mail delivery available: (1) certified, addressee signature required, and (2) certified, accepting individual signature required. In addition, the sending agency may require that return receipts be either returned to the FSP agency or held by the Postal Service. The least costly combination of certified delivery methods is to certify the recipient's address and request a receipt only when non-delivery is reported. In all project areas visited, this was the most frequently used method of certified delivery. Certified delivery does not always guarantee, however, that the intended recipients receive their allotments. Practices followed by project areas to reduce certified mail loss include:

- **Postal Service Verification**—All project areas using certified mail prepare such mailings separately from first-class envelopes and require that a Postal Service employee sign a verification form attesting to the receipt of all certified mail.

  In one project area, the following procedures were initiated by local postal officials to reduce certified mail losses: One, a postal service verification clerk verifies certified mail shipments by comparing each envelope to an FSP agency-supplied computer listing of certified mail. Two, the envelopes are sorted and counted by zip code and placed in sealed pouches. This step is performed in a secured section of the post office and is monitored by a Postal Service supervisor. Three, sealed bags are delivered directly to the appropriate

postal station. Upon receipt, the postal station prepares a report on the number of certified pieces received. This report is forwarded daily to the central processing unit postmaster and the postal inspector.

- **Postal Response Time For Certified Mail Searches**—In the project areas requesting copies of certified mail receipts, problems were reported in receiving timely response from the Postal Service.

  In one project area a study was conducted that evaluated Postal Service response time. It was found that local post offices were sending photocopies of signed receipts or reports of "no record" up to 60 days after the postal search was requested. A letter describing these results prompted an immediate reduction in the time required to conduct postal searches. As a result, the FSP agency has been able to deny, on a monthly basis, replacement requests amounting to over $30,000. Currently, this agency is receiving signed receipts within five or six days after the initial request. In addition, the FSP agency monitors each mail search and reports monthly to the post offices regarding their response time and the number of requests for which "no record" was found. The report has been instrumental in improving response time and assisting postmasters in identifying internal problems associated with search requests.

- **Registered Mail**—Registered mail, which is placed in a sealed pouch upon receipt by the Postal Service, is routed through a special handling unit staffed by designated postal clerks. Each time a registered piece is handled, an entry is made on a mail control log. These handling practices ensure the safe delivery of registered mail by providing a secure processing environment and a well-documented audit trail. Registered mail, which costs approximately twice as much as certified mail, is used by one project area to mail allotments with a value of more than $500.

- **Benefit Transfer Security**—In addition to securing the delivery of coupons through cooperative efforts of the Postal Service, other avenues are available to ensure that benefits are delivered to clients. These include:

  - **Increase Accuracy Of Mailing By Verifying Addresses Provided By Clients**—A major vulnerability in mail issuance is the processing of allotments that contain wrong mailing information, particularly inaccurate zip codes. Practices found to increase the accuracy of mailing addresses include: (1) computer edits that reject cases with out-of-area zip codes, (2) a manual

review of out-of-sequence zip codes, and (3) the requirement that clients provide certification workers with proof of address prior to preparation of notification documents.

- **Alternate Delivery Imposed After One Reported Mail Loss**—FNS regulations require that FSP agencies place mail issuance clients on an alternate method of delivery after two reported losses within a six-month period. To minimize the risk of multiple mail issuance replacements, all project areas require that clients reporting one mail loss be placed either on over-the-counter or certified mail delivery for the remainder of the client's certification period or until the certification worker determines that the threat of loss has been eliminated.

- **Mail Issuance Interview**—In two of the project areas, certification workers are responsible for interviewing all clients requesting mail issuance regarding the security of their mailboxes. During this interview, clients are asked questions regarding the number of individuals who have access to the mailbox, the security of the mailbox if it is located in a public area (i.e., apartment building lobby), and the incidence of previous mail losses. If the certification worker believes there is a potential for mail loss, the client is placed on alternate or over-the-counter issuance until the threat of loss is reduced or eliminated.

- **Analysis Of Mail Loss And Returns**—In all project areas, issuance staff conduct aggressive analyses of reported mail loss, which can result in the identification of delivery areas that require special handling (e.g., certified mail or alternate over-the-counter delivery). Such analyses include (1) sorting losses by district or street address within zip code to identify high-risk locations (e.g., public housing units, high crime areas); (2) plotting losses by caseload characteristics to identify at-risk populations (e.g., elderly, handicapped, and single, employed heads of households); and (3) monitoring loss patterns that may require Postal Inspector intervention (e.g., concentrated losses by carrier route or Postal Service distribution point).

  By conducting routine analyses of mail returns, project area staff can begin to identify patterns that may promote loss. For example, a project area that experiences a high rate of returned allotments should monitor such returns to pinpoint the reason for nondelivery. Reasons may include (1) failure by certification staff to submit timely notification updates, (2) delays in processing notification updates, or (3) inadequate instructions to clients regarding the reporting of changes in address.

- **Coordinating Closely With Postal Officials**—All eight project areas reported a good working relationship with local Postal Service officials. Open communication between the project

area and the Postal Service can assist in identifying areas that could result in coupon loss or theft prior to delivery.

If a project area experiences problems in dealing with local postal officials, then problems or issues, which are supported by strong documentation, should be reported directly to either a Postal Service regional manager or inspector. For example, one project area reported initial postal service resistance to processing large, daily volumes of certified mail. When FSP agency staff had exhausted all local Postal Service avenues, they contacted the Postal Service regional manager. The FSP agency presented this individual with documentation showing the mail losses that had occurred as a result of restrictions imposed by local postal officials. Eventually, the issue was resolved to the satisfaction of both parties.

7. THEFT FROM COUPON STORAGE OR WORKING INVENTORY

This vulnerability affects all project areas and issuance locations where coupons are kept. In small, isolated project offices, this may be compounded by the fact that insufficient on-site security is available for monitoring and safeguarding coupon supplies. Practices found to prevent inventory theft in all project areas are:

- **Limited Access, Dual Verification**—All project area issuance and distribution sites follow FNS regulations and guidelines regarding the disbursement, receipt, transfer, and destruction of food coupons. Inventory activities are carried out by at least two authorized staff members who are responsible for verifying coupon shipments and inventory disbursements. Additionally, only a limited number of project area staff have access to coupon supplies—typically, the project area administrator, issuance supervisor, and head cashier.

- **Issuance Area Security**—All government-operated project areas take added precautions to ensure that working inventories are safeguarded against potential theft. Such practices include:

  - Separating working inventories for each mail issuance cashier to identify internal theft and to monitor the accuracy of individual cashiering activities

  - Using on-site combination lock safes or locking inventory drawers to safeguard daily and working coupon supplies

  - Limiting access to mail issuance area to prevent theft of coupons and authorization documents

  To further reduce the risks associated with maintaining on-site coupon supplies, several of the project areas serving large caseloads have added one or more of the following controls:

  - Installing a security alarm system that alerts a local contract security agency or police to an attempted robbery or suspicious

disturbance (including such devices as sound and motion detectors located in coupon storage area, silent alarms to signify both inventory tampering and suspicious disturbances, vault and issuance area surveillance cameras, and time-delayed combination lock vaults).

- Stationing security guards in mail issuance areas during heavy periods of issuance activity

- Assigning police or security guard escorts during the transfer of coupons from the issuance site to the post office

- **Vendor Security**—In the three project areas with private vendors, contract agreements require all issuance agents to maintain adequate records and internal controls that ensure proper coupon issuances and to maintain daily records of coupon books received, issued, and on-hand. Issuance records are subject to periodic audit by the USDA, State FSP, or vendor.

8. DELAYED OR INCOMPLETE RECONCILIATION OF ISSUANCES

No unique procedures directed specifically to this vulnerability were observed in the project areas visited. All project areas follow FNS guidelines regarding daily, monthly, and quarterly reconciliation and reporting requirements.

9. BENEFIT LOSSES PER HOUSEHOLD AVERAGE $0.64 FOR DIRECT MAIL SYSTEMS

Benefit loss comparison among project areas using Direct Mail systems is based on data reported during the study period on the FNS 250, FNS 259, and FNS 256 reports. The following indicators (displayed on Exhibit II-2 and explained in Chapter I) are used in this section to compare the loss experienced in the eight Direct Mail project areas:

- **Inventory Loss Per Household** (FNS 250, Line 23, Value of Issuance Difference divided by FNS 256, Number of Participating Households)

- **Mail Loss Per Household and Issuance** (FNS 259, Column 7e, Value of Replacements divided by FNS 256, Number of Participating Households and FNS 259, Column 7e, Number of Mail Issuances)

- **Mail Issuance Replacement Rate** (FNS 259, Column 7b, Number of Replacements divided by FNS 259, Column 7a, Number of Mail Issuances)

- **Total Loss Per Household** (FNS 250, Line 23, Value of Issuance Difference plus FNS 259, Column 7e, Value of replacements divided by FNS 256, Number of Households)

Individual loss and replacement rates were calculated using total reported values for the project area for the period April 1982 through March 1983. Column averages were weighted by the total number of households or transactions processed by each of the eight project areas during the twelve-month study period.

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EXHIBIT V-2

DIRECT MAIL SYSTEM LOSS INDICATORS
(AVERAGE MONTHLY LOSS PER HOUSEHOLD AND ISSUANCE)

PROJECT AREA	INVENTORY LOSS PER HOUSEHOLD (DOLLARS)	MAIL LOSS PER HOUSEHOLD (DOLLARS)	TOTAL LOSS PER HOUSEHOLD (DOLLARS)	MAIL LOSS PER MAIL ISSUANCE (DOLLARS)	MAIL ISSUANCE REPLACEMENT RATE (PERCENT)
Augusta County	0.08	0.37	0.45	0.37	0.38
Shawnee County	< 0.01	0.57	0.57	0.51	0.59
Outagamie County	< 0.01	0.23	0.23	0.24	0.28
Kennebec County	< 0.01	0.50	0.50	0.48	0.41
Maricopa County	< 0.01	0.77	0.77	0.66	0.46
Ada County	< 0.01	0.89	0.89	0.88	0.65
Elmore County	0.01	1.88	1.89	2.14	1.50
San Joaquin County	0.01	0.33	0.34	0.40	0.45
WEIGHTED AVERAGE	< $0.01	$0.64	$0.65	$0.61	0.49%

NOTE: Per household loss indicators are computed by dividing the total amount reported in each loss category by the TOTAL number of participating households as reported on the project area's FNS 256 report. For Direct Mail project areas an additional indicator--loss per mail issuance--is used. This indicator displays unit losses for only that portion of the project area's recipient population that receives benefits through direct mail issuance. (See Chapter One for further explanation.)

The Average Monthly Inventory Loss Per Household Among Direct Mail Systems Is Less Than $0.01—In all but one project area, this loss is attributed to cashier error. The largest loss per household was $0.08; however, 90 percent of this loss was a result of unrecovered duplicate issuances that occurred during a three-month transition from project area to contractor issuance.

Average Monthly Mail Loss in Direct Mail Systems is $0.64 Per Household; 0.61 Per Mail Issuance–Mail loss per household ranges from a low of $0.23 to a high of $1.89. Nationally, the mail loss per issuance was $0.75. The highest loss is a result of theft by a Postal Service employee. Subsequent to the theft, the project area installed pre-sorted and sealed delivery of all mail issuances to the post office. Loss per household dropped to $0.32 after this practice was implemented.

As discussed in earlier sections, there are a number of practices that appear to be effective in reducing losses due to mail replacements. Some of these are: requiring that clients submit proof of residence; interviewing clients about mail-box security; performing automated edit checks of address fields and zip codes during the notification process; securing shipments enroute to the Postal Service; and instituting alternate delivery after one reported mail loss. Additionally, all the sites visited conducted detailed analyses of where loss was occurring. These analyses can target at-risk populations or high-risk locations so that restrictive practices can be designed to reduce the risks associated with the direct mailing of coupons.

Mail Issuance Replacements Average 0.53 percent of Total Issuances. Nationally, the average replacement rate was 0.59 percent. Replacement rates among the sites studied range from a low of 0.32 percent to the high of 1.50 percent. As above, the highest replacement rate occurred in the project area experiencing a major postal theft and was the result of unsecured envelopes passing through a central Postal Service processing hub.

In general, replacement rates tend to be closely correlated with loss rates. However, if a project area experiences a replacement rate that is less than its loss rate, it may be because the average value of a replacement is less than the average value of an original issuance. Conversely, if the replacement rate is greater than the loss rate, it may be because the average replacement is less than the average original issuance. In the first case (replacement rate less than loss rate) the project area may be replacing a large number of combined issuances (i.e., original allotment plus a supplement). In the second case (replacement rate greater than loss rate), the project area may be replacing a greater proportion of non-routine issuances, or issuances for households receiving supplemental income. In either case, a large variance indicates the need for mail loss analysis to identify (1) why the variance is occurring, and (2) if corrective action should be taken. For example, supplemental income households are, for the most part, comprised of the elderly or the handicapped. Targeting these groups for alternate delivery (e.g., certified mail) may have an effect on both mail losses and the associated replacement rate.

Project Areas Supplementing Their Direct Mail Operation With A Secondary Issuance System Reported Zero Losses Resulting From Secondary System Issuance. None of the three project areas operating a secondary issuance system to supplement their direct mail operation reported losses resulting from secondary system authorization and benefit transfer. The alternate system types used by these project areas include two ATP sytems and one On-Line System.

* * * * *

Based on a comparison of study site and national performance measures, the practices employed by the eight Direct Mail project areas appear to be effective in minimizing system vulnerabilities to loss. The table below presents a summary comparison of performance measures discussed in this section. Additionally, this table presents mail loss measures for 15 project areas included in this study that use mail as an alternate method of benefit delivery. On the average, these study sites experienced a significantly lower loss per issuance. This is attributed to the ability of these sites to both target mail issuance to specified population groups and transfer clients to an over-the-counter delivery system should the client report repeated mail loss.

	Performance Measures		
Performance Indicators	Average (Direct Mail Sites)	Average (Mixed System Sites)	National Average
Inventory Loss Per Household	$0.01	$0.01	$0.05
Mail Loss Per Mail Issuance	$0.61	$0.23	$0.75
Mail Issuance Replacement Rate	0.53%	0.19%	0.59%

10. ISSUANCE-RELATED COSTS AVERAGE $1.64 PER HOUSEHOLD FOR DIRECT MAIL PROJECT AREAS

Exhibit V-3 on the next page presents the per household monthly costs of issuance for the project areas by major cost elements. These averages were calculated from site-reported cost and participation data for the period April 1982 to March 1983.

- **Project Areas Categorical and Total Costs Per Household** were calculated by dividing the cost in each category reported by a project area by the number of participating households as reported on the FNS 256, Monthly Project Area Participation and Coupon Issuance Report.

- **Weighted Average Monthly Issuance Cost Per Household** was calculated as the sum of project area total costs divided by the sum of project area participating households as reported on the FNS 256.

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EXHIBIT V-3

ISSUANCE COSTS DIRECT MAIL SYSTEMS
(AVERAGE MONTHLY COST PER HOUSEHOLD)

PROJECT AREA	COST ELEMENT (DOLLARS/HOUSEHOLD)				
	DIRECT LABOR	AUTOMATED DATA PROCESSING	CONTRACT ISSUANCE	OTHER DIRECT COSTS	TOTAL
Augusta County	0.82	N/A	0.59	0.16	1.57
Shawnee County	0.31	0.27	N/A	0.70	1.28
Outagamie County	0.85	N/A	N/A	0.32	1.17
Kennebec County	0.22	0.15	N/A	0.54	0.91
Maricopa County	0.58	0.25	N/A	0.71	1.54
Ada County	0.37	0.65	0.51	0.50	2.03
Elmore County	2.07	0.23	N/A	0.38	2.68
San Joaquin	0.04	0.59	0.50	0.79	1.92
				WEIGHTED AVERAGE	$1.64

N/A: Not Applicable

The study objective with respect to administrative costs was to estimate and compare total issuance costs across project areas. To meet this objective, the individual costs of performing issuance-related activities were sorted into a standard set of issuance system resource requirements. This set includes (1) the salaries and fringe benefits paid to FSP agency personnel who supervise, perform, or monitor one or more issuance functions; (2) the automated data processing costs associated with the processing of food stamp master file data; (3) the fees paid to contract issuance agents; and (4) the miscellaneous direct costs required to support issuance activity, such as postage to mail coupons or authorization documents, and fees paid to transport or secure food stamp coupons.

When the costs of these resource requirements are added, their sum represents a reasonable estimate of the costs required to operate a project area's issuance system. However, since the mix of resources varies between project areas, it is not possible to develop "pure" estimates or averages for individual cost categories. For example, in some project areas security guard coverage is included as a direct labor cost because FSP staff are assigned to monitor issuance activities. In other project areas this cost is reported as an "other direct" (miscellaneous) cost because coverage is provided by a contract security agency.

The Average Monthly Cost Per Household Among Project Areas is $1.64, With Project Area Total Costs Ranging From $0.91 to $2.67. Major explanations for variability in total costs are:

- **FSP Agency Responsibility for Issuance Functions**—On the average, issuance costs are lower in project areas that are operated by a state-operated issuance unit; higher in project areas that operate their own direct mail issuance operation. Among the four state-operated project areas, the average cost per household was $1.49. The four locally-operated direct mail operations averaged $1.87 per household. This economy of scale occurs because state FSP agencies have the ability to spread relatively fixed costs, such as supervisory staff direct labor and automated data processing, over a larger base.

- **Contracted Benefit Delivery**—On the average, issuance costs are higher in project areas that employ contract vendors to deliver food coupons; lower in project areas that have FSP agency-operated direct mail units. Among the three project areas that contracted with an issuance vendor, the average cost per household was $1.91. The six sites operated by FSP agencies averaged $1.47 per household. Contract issuance costs include overhead and profit components that are not included for FSP-operated systems. Without any adjustments to the data, total issuance costs will be biased in the direction of higher costs for project areas with vendor-operated direct mail delivery.

11. EFFECTIVE DIRECT MAIL PROJECT AREAS CONTROL FOR MAILING ADDRESS ACCURACY AND ASSURED BENEFIT DELIVERY TO REDUCE VULNERABILITY TO LOSS

The major strength of a Direct Mail system is that it maximizes client access to food stamp benefits by removing geographic barriers to benefit transfer. Project areas that issue direct mail benefits to all clients are characterized by a widely dispersed client population, while those that employ direct mail for certain portions of their client population usually restrict mail delivery to specific client groups, most often the aged and the handicapped.

The inherent trade-off for increased client access to benefits through direct mail delivery is system vulnerability to factors that can increase the likelihood of loss during the benefit transfer process. Some of these vulnerabilities are internal to the issuance unit, such as recording inaccurate client addresses or failing to determine potential mail security problems. The effective issuance systems we studied controlled for these vulnerabilities to loss by requiring that clients submit proof of residence; interviewing clients about mailbox security; performing automated edit checks of address fields and zip codes during the notification process; and identifying clients for placement on a certification office benefit pick-up system after determining that a client is at risk for loss because of factors such as age, carrier route, housing area, or zip code. Most project areas minimize the probability of continued mail losses by placing a client on alternate delivery after one mail loss, even though FNS regulations require such delivery only after two mail losses within a six-month period.

Since Direct Mail systems rely on other agencies to deliver benefits outside the issuance unit, they are especially vulnerable to loss from benefit loss or theft. The systems studied employ a number of effective ways of dealing with external potential for loss. Vulnerability to theft of benefits in transport from the issuance unit to the post office is controlled by employing security guards and armored car services to deliver mailing envelopes. Vulnerability to delayed transport or theft within the postal system is controlled by sorting envelopes by zip code at the issuance site and then sealing each sorted group in a mail pouch, thereby alleviating the need for processing outside the issuance unit prior to carrier distribution.

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CHAPTER SIX

HOUSEHOLD ISSUANCE RECORD SYSTEMS

VI. HOUSEHOLD ISSUANCE RECORD SYSTEMS

The Household Issuance Record (HIR) system is used to deliver about two percent of the benefits in the Food Stamp Program (see Appendix A). The HIR system, the original method of benefit authorization and transfer, is a manual approach to food stamp issuance in which the authorizing document (the HIR card) is maintained at the issuance office. The HIR card provides a continuous record of all issuance transactions for an individual household throughout the entire period of the household's eligibility. In this system, benefit transfer is conducted only by FSP agencies.

Our study included three project areas that have been identified as using HIR systems effectively. Exhibit VI-1 on the next page displays average monthly participation data for each HIR project area. Highlighted below are the major operating similarities and differences found among the three project areas studied.

- Two project areas provide both over-the-counter and direct mail benefit delivery to eligible households. In both sites, the method of delivery is determined by client choice. It is for this reason that the project area mailing 67 percent of its monthly benefits is included in this chapter. The fact that clients are allowed to choose their method of benefit delivery differentiates this site from a Direct Mail project area in which clients are placed automatically on direct mail issuance at the time of certification. Additionally, like the other project area, this site uses the same method of benefit authorization to transfer both over-the-counter and mail benefits. In Direct Mail project areas, two separate authorization mechanisms are used (computerized listing of mail issuance households and computer-printed ATP cards for over-the-counter delivery).

  Halfway through the study period, one project area changed from direct mail to over-the-counter benefit delivery. This change was made to eliminate losses due to mail replacements and to reduce project area operating costs.

- Two project areas are rural and serve a relatively stable recipient population. The remaining project area serves recipients residing in both rural and urban locations, with the urban caseload tending to turn over more rapidly than its rural counterpart. Also, this project area, which is the largest of the three studied, is the only one to provide clients with a choice of over-the-counter issuance locations.

The methods and practices used by these project areas to minimize system vulnerability to loss are described in the the first eight sections that follow. The remaining three sections present data on reported benefit loss and administrative costs of issuance, as well as a summary of HIR system strengths and weaknesses.

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EXHIBIT VI-1

HIR PROJECT AREA CHARACTERISTICS

PROJECT AREA	PROGRAM ADMINISTRATION	AVERAGE MONTHLY NUMBER/PERCENT OF PARTICIPATING HOUSEHOLDS			AVERAGE MONTHLY VALUE/PERCENT OF ISSUANCE			TYPE OF ISSUANCE AGENT
		HIR	MAIL	TOTAL	HIR	MAIL	TOTAL	
Pittsylvania County, Virginia	State Administered County Operated	1,091 (59%)	764 (41%)	1,855	$145,098 (65%)	$ 79,268 (35%)	$224,366	Government Agency
Lancaster County, Nebraska	State Administered County Operated	3,008 (65%)	1,590 (35%)	4,598	$324,414 (73%)	$119,756 (27%)	$444,170	Government Agency
Calhoun County, Mississippi	State Administered County Operated	444 (45%)	542 (55%)	986	$ 33,533 (33%)	$ 68,982 (67%)	$102,515	Government Agency

1. DELAYED PROCESSING OF HOUSEHOLD ELIGIBILITY DATA

Delayed processing of notification data results in a temporary lack of information regarding the eligibility of a particular client for benefits. In some cases, this may result in unauthorized issuance to the client. For example, if a certification worker forwards a notification document to the issuance unit informing them of a decrease in a client's benefits, but the issuance unit does not process the change before benefit transfer, then the client will receive benefits in excess of authorized levels.

All the effective HIR systems studied are responsive to FSP requirements for prompt handling of notification data. These sites have developed manual procedures to control and expedite such data. Four techniques appear to reduce vulnerability related to delays in processing client authorization records (HIR cards).

- **One-Day Turnaround Time**—All three project areas attempt to process notification data within one day of receipt from the certification unit. One-day processing is facilitated by having issuance units, which double as data management units, in or adjacent to certification areas.

- **Batch Control**—Two of the sample project areas employ a batch control system (i.e., notification document pending file) to prevent documents from being lost and to monitor timely completion of HIR card updates. In both project areas, certification workers prepare a three-part notification document to inform issuance personnel of a change in a client's eligibility status. The original and one copy are forwarded to the issuance unit for HIR update; the second copy is placed in an update pending file (located in the certification unit). After issuance personnel have finished processing the update, the original is placed in a completed transaction file, and the copy is returned to the certification worker for filing in the client's case record. The pending file is used to monitor the status of authorization updates and also to provide an audit trail if a notification document is lost.

- **Processing Deadlines**—All three HIR project areas establish an end-of-month cutoff date for processing updates to the HIR master file, thus ensuring that all required changes are made prior to the monthly issuance cycle. Failure by certification staff to adhere to this cutoff date may result in administrative errors that are subsequently reported as deficiencies in a certification unit's performance rating.

- **HIR Update Prioritization**—Should a backlog of notification documents occur, issuance staff in all three project areas are instructed to process new cases and changes that affect benefit levels first. This practice ensures that processing delays do not result in the overissuance or unauthorized issuance of food stamp benefits.

2. INACCURATE OR INCOMPLETE PROCESSING OF HOUSEHOLD ELIGIBILITY DATA

Manually prepared notification documents and HIR cards are vulnerable to transcription errors that can result in unauthorized issuance. Two strategies were found to be effective in monitoring the accuracy of all manually transcribed eligibility information:

- **Verification Of Eligibility Data**—In all three HIR systems, the accuracy of notification documents prepared by certification workers is monitored and verified through (1) supervisory review of all notification documents prepared by newly hired certification workers on employment probation, and (2) periodic supervisory review of selected documents prepared by post-probation certification workers.

- **Visual Specification Checks**—Prior to updating or establishing an HIR card, issuance staff in all three project areas are required to check transcribed data for completeness and accuracy. Typically, these checks include: (1) a review of all numerical fields (e.g., benefit amount, case number) for transposition errors, and (2) verification that the allotment amount equals the corresponding coupon book denominations. Notification documents that are missing required fields or contain inaccurate information are returned to the certification worker for completion or correction. A copy of each notification update is returned to the certification unit for filing in the client's case record.

3. LOSS OR THEFT OF AUTHORIZATION DOCUMENT

The HIR system configuration intrinsically protects authorization documents from being lost or stolen and subsequently presented by the client for benefit transfer. Active HIR cards are vulnerable to alteration and internal loss, however, and blank HIR cards could be used to establish fraudulent authorization records. Five strategies were found to be effective in controlling for the loss and unauthorized establishment or alteration of HIR cards:

- **Limited Access To HIR Cards**—In all three project areas, inactive and active HIR cards are kept in locked file cabinets, with access limited to issuance unit supervisors and their immediate staff. The bulk supply of blank, serialized HIR cards is controlled by issuance supervisors who monitor the assignment or destruction of blank cards, using an HIR control log.

- **Documented Status Changes**—All three project areas require that changes to HIR cards be documented by a notification form signed and dated by both the certification worker and the issuance clerk. Copies of all notification documents are maintained by the issuance unit; a corresponding copy is filed in the client's case record.

- **HIR Cross-Reference File**—For every HIR card established, each of the three project areas initiates an HIR master file index. This file is reviewed each time a new case is established to ensure that the client is not currently participating in the Food Stamp Program. Two project areas key this index by using the head of household's social security number, thus providing an additional verification of client status. The third project area keys the index alphabetically.

- **Lost/Misplaced HIR Card**—Should an HIR card be lost or misplaced, project areas rely on the most recent notification document filed in the client's case record. A duplicate card is established and used until the original is found. If the original is recovered, the duplicate record is voided and filed in either the client's case record or the HIR inactive file. Like original HIR cards, duplicate HIR cards are vulnerable to transcription errors that can result in unauthorized issuance. The strategies discussed under Section Two minimize the possibility of such errors.

- **Separation Of Over-The-Counter And Mail HIR Cards**—Two project areas physically separate, clearly mark, or color-code HIR cards to indicate the method of benefit transfer (i.e., over-the-counter or mail). This physical separation ensures that clients do not receive both over-the-counter and mail issuance allotments.

4. CLIENT MISREPRESENTATION/FRAUD AT BENEFIT TRANSFER POINT

Issuance systems vary greatly in their vulnerability to loss from misrepresentation. Areas with large, high-turnover caseloads must use a series of verification procedures to avoid loss through misrepresentation. In most cases, these procedures require additional identification if the cashier has any question about the verification documents provided by the client or his or her representative. Smaller project areas, similar to the HIR study sites, are least vulnerable because their cashiers become acquainted with eligible clients and identification is often by sight. Specifically, three practices were observed:

- **Signature Comparison**—The client must sign the HIR card in the presence of the cashier. If this signature does not match the client's food stamp identification card, an additional form of identification with the client's photograph may be requested. Typically, however, the client's caseworker is asked to verify the client's identity.

- **Predesignation Of Authorized Representative**—All of the project areas require that authorized representatives be identified on the HIR card and on the client's identification card. Authorized representatives must then follow the signature comparison procedure outlined above.

- **Designation Of Emergency Representative**—In all three project areas, emergency representatives are allowed to pick up benefits for eligible clients. When this is done, the following procedure is followed:

  - The emergency representative must present the head of household's food stamp identification card along with a signed

authorization note from the client containing the signature of the head of household and the printed name and signature of the emergency representative.

- The emergency representative must sign the HIR card and provide the issuance cashier with an additional form of personal identification for signature comparison.

- After benefits have been transferred, the authorization note is filed in the client's case record.

5. CASHIER ERROR RESULTING IN OVERISSUANCE

Overissuance can also occur as a result of cashier error in delivering coupons to clients. It appears that a combination of redundant cashier practices combined with an even client flow reduces errors resulting in overissuance. Four practices were reported to reduce cashier errors resulting in overissuance:

- **Double Counting**—In all three project areas, coupon books are counted twice prior to benefit transfer—first, when removed from working inventory, and second, when handed to the recipient. In two project areas the client is requested to recount the coupon books before leaving the issuance window.

- **Pre-Benefit Transfer Coupon Book Separation**—All three sites noted a problem with the two and seven dollar coupon books. Because these books are bound with glue, there is a tendency for them to stick together. An additional effort to separate book denominations prior to issuance was reported to reduce overissuance of these coupon book denominations.

- **Staggered Issuance**—When issuance is concentrated during the first two or three days of the month, cashiers must transfer a high volume of benefits in a short time period. This high issuance volume appears to result in cashiering errors. Staggered issuance, practiced in two of the three project areas, permits an even client flow that is reported to reduce cashiering errors.

  To compensate for the increased client activity caused by unstaggered issuance, the third project area recruits additional FSP staff to monitor client flow and issue benefits. Also, during this period, one issuance window is assigned an FSP "troubleshooter" to whom clients with questions or problems are referred. This practice is designed to minimize processing delays which could result in overissuance due to cashier or administrative error. For example, a cashier may notice that the HIR card contains an allotment amount different from the corresponding coupon book denominations. Instead of the cashier making a judgment as to the correct amount, the client is referred to the "troubleshooter" who then verifies the correct benefit amount by checking with the client's certification worker or reviewing the client's case record.

- **Verification Of Manually Prepared HIR Cards**—Typographical errors appearing on manually produced HIR cards can result in unauthorized overissuance. Common errors include: (1) a mismatch between the spelling of a client's name as it appears on the food stamp identification and HIR cards, and (2) an allotment amount different from the corresponding coupon book denominations. Upon detection of an error on the HIR card, cashiers in all three sites first determine if the error was the result of a transcription mistake. This is done by checking the most recently submitted notification document. If the same error appears on this document, the client is referred to his/her certification worker for additional follow-up.

6. LOSS OR THEFT OF MAIL ISSUANCE ALLOTMENTS

Two HIR project areas use direct mail as an alternate method of benefit delivery. Several practices were found to minimize losses resulting from coupons reported lost or stolen in the mail. (NOTE: For a more detailed description of practices designed to reduce mail loss, refer to Chapter V, Direct Mail Systems.)

- **Dollar Value Restriction**—One project area restricts mail issuance to households receiving less than $200 in monthly benefits. This limit is based on the mail loss experience of this particular project area.

- **Alternate Delivery Imposed After One Reported Mail Loss**—FNS regulations require that FSP agencies place mail issuance clients on an alternate method of delivery after two reported losses within a six-month period. To minimize the risk of multiple mail issuance replacements, both project areas require that clients reporting one mail loss be placed on over-the-counter delivery for the remainder of the client's certification period or until the certification worker determines that the threat of loss has been eliminated.

- **Mail Issuance Interview**—In one project area, certification workers interview all clients requesting mail issuance regarding the security of their mailboxes. During this interview, clients are asked questions regarding the number of individuals who have access to the mailbox, the security of the mailbox if it is located in a public area (e.g., apartment building lobby), and the incidence of previous mail losses. If the certification worker believes that there is a potential for mail loss, the client is placed on over-the-counter issuance until the threat of loss is reduced or eliminated.

- **Analysis Of Mail Loss And Returns**—In all three project areas, issuance staff conduct routine analyses of reported mail losses, which are reported in turn to the Postal Service for further investigation. Such analyses, which are summarized on the FNS 259, result in the identification of delivery areas that require special handling (e.g., certified mail or alternate over-the-counter delivery). For example, one project area experienced a high loss rate among clients who received their coupons at post office boxes. Upon investigation, it was found that allotments were being stolen by an individual who, through his own mail box, could access adjacent mail boxes and remove coupon envelopes.

By conducting routine analyses of mail returns, project area staff also can begin to identify patterns that may promote loss. For example, a project area that experiences a high rate of returned allotments monitors such returns to pinpoint the reason for nondelivery. Reasons may include (1) failure by certification staff to submit timely notification updates, (2) delays in processing notification updates, or (3) inadequate instructions to clients regarding the reporting of changes in address.

7. THEFT FROM COUPON STORAGE OR WORKING INVENTORY

This vulnerability affects all project areas and issuance locations where coupons are kept. In small, isolated project offices, this vulnerability may be compounded by the fact that insufficient on-site security is available for monitoring and safeguarding coupon supplies. Practices found to prevent inventory theft in small project areas are:

- **Off-Site Bulk Storage**—On the average the study sites maintain a three- to six-month bulk supply of coupons. However, because of inadequate on-site security, all project areas store their bulk coupon supplies at off-site, secured facilities (i.e., bank, sheriff's office, and contract armored car service).

- **Limited Access, Dual Verification**—All project area issuance sites follow FNS regulations and guidelines regarding the disbursement, receipt, transfer, and destruction of food coupons. Inventory activities are carried out by at least two authorized staff members who are responsible for verifying coupon shipments and inventory disbursements. Additionally, only a limited number of project area staff have access to on-site coupon supplies—typically, the project area administrator, issuance supervisor, and head cashier.

- **Issuance Area Security**—All three project areas take added precautions to ensure that on-site coupon inventories are safeguarded against potential theft. Typical practices include:

  - Separating working inventories for each issuance cashier to monitor the accuracy of individual cashiering activities

  - Using on-site combination lock safes or locking inventory drawers to safeguard daily and working coupon supplies

  - Enclosing and limiting access to cashiering cages to prevent theft of coupons and authorization records

  To further reduce the risks associated with maintaining on-site coupon supplies, the project area serving the largest caseload has added the following controls:

  - Installing a security alarm system that alerts a local contract security agency to an attempted robbery or suspicious disturbance

- Stationing a security guard in the main issuance area during heavy periods of issuance activity

- Assigning a security guard escort during the transfer of coupons between the main issuance site and itinerant issuance locations

8. DELAYED OR INCOMPLETE RECONCILIATION OF ISSUANCES

Daily and monthly reconciliation of documented issuance to actual issuance is performed manually in all of the HIR project areas studied. This reconciliation process highlights inventory discrepancies due to cashier error or theft. Reconciliation of documented issuance to authorized issuance is performed, by regulation, in all three project areas on a semi-annual basis. This semi-annual review of 20 percent of the project area caseload is used to reveal discrepancies between case records and HIR cards. None of the sites visited reported any discrepancies in this review.

No unique procedures directed specifically to this vulnerability were observed in the project areas visited. All project areas follow FNS guidelines regarding daily and monthly reconciliation and reporting requirements.

9. BENEFIT LOSSES PER HOUSEHOLD AVERAGE $0.13 IN MIXED HIR/DIRECT MAIL SYSTEMS

Benefit loss comparison among project areas using HIR systems is based on data reported during the study period on the FNS 250, FNS 259, and FNS 256 reports. The following indicators (displayed on Exhibit VI-2 and explained in Chapter I) are used in this section to compare the loss experienced in the three HIR project areas:

- **Inventory Loss Per Household** (FNS 250, Line 23, Value of Issuance Difference divided by FNS 256, Number of Participating Households)

- **Mail Loss Per Household and Issuance** (FNS 259, Column 7e, Value of Replacements divided by FNS 256, Number of Participating Households and FNS 259, Column 7a, Number of Mail Issuances)

- **Mail Issuance Replacement Rate** (FNS 259, Column 7b, Number of Replacements divided by FNS 259, Column 7a, Number of Mail Issuances)

- **Total Loss Per Household** (FNS 250, Line 23, Value of Issuance Difference plus FNS 259, Column 7e, Value of Replacements divided by FNS 256, Number of Households)

Individual loss and replacement rates were calculated using total reported values for the project area for the period April 1982 through March 1983. Column averages were weighted by the total number of households or transactions processed by each of the three project areas during the twelve-month study period.

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EXHIBIT VI-2

HIR SYSTEM LOSS INDICATORS
(AVERAGE MONTHLY LOSS PER HOUSEHOLD AND ISSUANCE)

PROJECT AREA	INVENTORY LOSS PER HOUSEHOLD (DOLLARS)	MAIL LOSS PER HOUSEHOLD (DOLLARS)	TOTAL LOSS PER HOUSEHOLD (DOLLARS)	MAIL LOSS PER MAIL ISSUANCE (DOLLARS)	MAIL ISSUANCE REPLACEMENT RATE (PERCENT)
Pittsylvania County	0.02	0.10	0.13	0.25	0.15
Lancaster County	<0.01	0.17	0.17	0.48	0.48
Calhoun County	<0.01	0.02	0.02	0.03	0.06
WEIGHTED AVERAGE	< $0.01	$0.13	$0.14	$0.34	0.32%

NOTE: Per household loss indicators are computed by dividing the total amount reported in each loss category by the TOTAL number of participating households as reported on the project area's FNS 256 report. For project areas using mail issuance an additional indicator--loss per mail issuance--is used. This indicator displays unit losses for only that portion of the project area's recipient population that receives benefits through direct mail issuance. (See Chapter One for further explanation.)

The Average Monthly Inventory Loss Per Household Among Effective HIR Systems Is Less Than $0.01. In all three project areas, this loss is attributed to cashier error. The project area experiencing the highest loss per household ($0.02) displayed a 68-percent increase in cashier error after changing from direct mail to over-the-counter benefit delivery. This rise in cashier error may be reflecting the change from a team verification of each mail allotment (used during the first six months of the study period) to a single counting of an over-the-counter benefit transfer (used during the last six months of the study of period).

Project Area Environmental Characteristics Account For High/Low Mail Loss Data Points*. The project area reporting the highest mail loss rates contains urban clusters inhabited by transient populations. These characteristics, combined with higher mail loss rates, indicate the desirability of targeted or restricted mail issuance practices (e.g., certified mail or mandatory over-the-counter issuance) which are not currently employed by the project area. Conversely, the site with the lowest mail loss rate serves a small, rural recipient population that is relatively stable and well known to FSP staff. In this site, no restrictive practices are required.

- HIR project areas using mail as an altenate delivery method experience an average monthly loss per mail issuance of $0.34. Loss ranges from $0.03 to $0.48. Nationally, the average monthly loss per issuance was $0.75 for the period April 1982 to March 1983

- Mail issuance replacements average 0.32 percent of total issuances. This percentage is correlated with the number of mail issuances, from a low of 0.06 percent (of 6,500 issuances) to a high of 0.48 percent (of 19,000 issuances). Nationally, the replacement rate was 0.59 percent for the period April 1982 to 1983.

Based on a comparison of study site and national performance measures, the practices employed by the three HIR project areas appear to be effective in minimizing system vulnerabilities to loss. The table below presents a summary comparison of performance measures discussed in this section.

	Performance Measures	
Performance Indicators	**Study Average**	**National Average**
Inventory Loss Per Household	$0.01	$0.05
Mail Loss Per Mail Issuance	$0.34	$0.75
Mail Issuance Replacement Rate	0.32%	0.59%

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* For comparison of loss rates experienced in project areas using direct mail as the primary method of benefit delivery to project areas using mail as an alternate method, refer to Chapter V, Direct Mail Systems.

10. ISSUANCE-RELATED COSTS AVERAGE $1.66 PER HOUSEHOLD FOR HIR PROJECT AREAS

Exhibit VI-3 on the next page presents the per household monthly costs of issuance for the project areas by major cost elements. These averages were calculated from site-reported cost and participation data for the period April 1982 to March 1983.

- **Project Area Categorical And Total Costs Per Household** were calculated by dividing the cost in each category reported by a project area by the number of participating households as reported on the FNS 256, Monthly Project Area Participation and Coupon Issuance Report.

- **Weighted Average Monthly Issuance Cost Per Household** was calculated as the sum of project area total costs divided by the sum of project area participating households as reported on the FNS 256.

The study objective with respect to administrative costs was to estimate and compare total issuance costs across project areas. To meet this objective, the individual costs of performing issuance-related activities were sorted into a standard set of issuance system resource requirements. This set includes (1) the salaries and fringe benefits paid to FSP agency personnel who supervise, perform, or monitor one or more issuance functions; (2) the automated data processing costs associated with the processing of food stamp master file data; (3) the fees paid to contract issuance agents; and (4) the miscellaneous direct costs required to support issuance activity, such as postage to mail coupons or authorization documents, and fees paid to transport or secure food stamp coupons.

When the costs of these resource requirements are added, their sum represents a reasonable estimate of the costs required to operate a project area's issuance system. However, since the mix of resources varies between project areas, it is not possible to develop "pure" estimates or averages for individual cost categories. For example, in some project areas, security guard coverage is included as a direct labor cost because FSP staff are assigned to monitor issuance activities. In other project areas, this cost is reported as an "other direct" (miscellaneous) cost because coverage is provided by a contract security agency.

The Average Monthly Cost Per Household Among Project Areas Is $1.66, With Project Area Total Costs Ranging From $1.58 To $2.17.

11. EFFECTIVE HIR PROJECT AREAS CONTROL MANUAL PROCESSING DELAYS AND ERRORS TO REDUCE VULNERABILITY TO LOSS

The major strength of an HIR system is that client access to the authorization document is restricted to the benefit issuance site. Clients or their representatives must sign the authorization document at the benefit issuance site prior to benefit transfer. This feature promotes control of loss resulting from client claims of non-receipt of mailed authorization documents.

HIR systems are characteristically located in project areas with relatively small caseloads. This aids in the control of loss due to client misrepresentation because issuance staff can usually identify clients by sight, as well as by signature. Also, certification and issuance functions tend to be housed in the same building in

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EXHIBIT VI-3

ISSUANCE COSTS HIR SYSTEMS
(AVERAGE MONTHLY COST PER HOUSEHOLD)

PROJECT AREA	COST ELEMENT (DOLLARS/HOUSEHOLD)				
	DIRECT LABOR	ADP	CONTRACT ISSUANCE	OTHER	TOTAL
Pittsylvania County	1.48	N/A	N/A	0.11	1.59
Lancaster County	1.29	N/A	N/A	0.29	1.58
Calhoun County	2.00	N/A	N/A	0.17	2.17
				WEIGHTED AVERAGE	$1.66

N/A: Not Applicable

these less populous project areas, promoting the availability of immediate caseworker assistance in resolving cases of suspected client misrepresentation.
The greatest source of potential loss in an HIR system is the difficulty of controlling internal conditions related to manual issuance processing. Manual processing is relatively slow and inaccurate. The project areas studied have established controls for these vulnerabilities.

- System timeliness can be improved by enforcing deadlines, such as one-day turnaround time for notification data receipt and processing, and a monthly cutoff date for master file updating. These deadlines are often monitored through a document pending file.

- Accuracy can be promoted by building controls into various issuance processes and are most useful when they duplicate functions that are especially vulnerable to human error, such as calculating benefit amounts, transposing notification data onto HIR cards, and converting authorized allotments corresponding to coupon book denominations on the HIR card.

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CHAPTER SEVEN

COMPARATIVE ANALYSIS

VII. COMPARATIVE ANALYSIS

The focus of the preceding chapters is on operational features and performance of effective examples of each major system type. Comparisons are within system types.

In this chapter, comparisons are across system types. This different level of comparison addresses three major questions:

- What is the relative capability of the various system types for controlling benefit loss?
- How do the operating costs of various system types compare?
- What courses of action can State and local FSP agencies take to improve overall performance of the issuance function?

Three primary areas of loss are identified in the earlier chapters: inventory loss, mail loss, and loss due to unmatched ATP transactions. All study site and national loss statistics discussed in this chapter are based on data reported to FNS during the period April 1982 to March 1983. National performance measures were calculated using the same equations used to derive study loss averages. These measures include:

- **Inventory Loss Per Household** (FNS 250, Line 23, Value of Issuance Difference divided by FNS 256, Number of Participating Households)
- **ATP Loss Per Transaction** (FNS 46, Line 10, Value of Unmatched ATPs Transacted divided by FNS 46, Line 8, Total ATPs Transacted)
- **Mail Loss Per Issuance** (FNS 259, Column 7e, Value of Replacements divided by FNS 259, Column 7a, Number of Mail Issuances)

All loss averages are weighted by the total number of households, transactions, or issuances reported during the twelve-month study period.

The capability of the different system types for controlling these losses are examined in the first three sections of this chapter. Some inherent advantages of HIR, Direct Delivery, and On-Line systems are recognized in the fourth section. Administrative costs are considered next. In the last section of the chapter, alternatives for improving issuance system performance are described.

1. ALL SYSTEM TYPES HAVE CAPACITY FOR MINIMIZING INVENTORY LOSS

Inventory losses, as defined in prior chapters, are shortages due most often to cashiering errors. These show up as discrepancies between documented issuance and coupon stock and are reported on line 23 of FNS 250. All FSP issuance agents are required to submit this report regardless of the system type in use.

Inventory loss for the project areas we visited are tabulated in Table 1 on the following page. The figures shown are averages for the sites using each system type.

Table 1

Primary Issuance System	Inventory Loss Per Household (4/82 - 3/83)
ATP	$0.01
Direct Delivery	0.03
On-Line	0.02
Direct Mail	0.01
EBR	0.01
National Average	$0.05

It is evident in this table that there is little variation in inventory loss across system types, and that inventory loss for all the study sites is significantly lower than the national average. This superior performance appears to be attributable, at least in part, to several practices observed in most of the sites visited:

- Access to inventory storage area is limited to two or three key people, and FSP and contract issuance agents follow FNS regulations regarding the disbursement, receipt, transfer, and destruction of food coupons.
- Locks and enclosures are used to maximize the physical security of inventory storage and issuance areas.
- Separate working inventories are maintained for each cashier so that the accuracy of individual cashiering activities can be monitored and internal theft can be detected.
- Coupon books are counted twice before benefit transfer—first, when removed from working inventory, and second, when handed to the recipient.
- Because the two and seven dollar coupon books are bound with glue, there is a tendency for them to stick together during benefit transfer. An additional effort to separate these denominations before issuance was reported by FSP staff to reduce their overissuance.
- Issuance times are staggered at most sites to reduce cashiering errors that occur when high volumes are processed in compressed time frames; in addition, at least one site varies the size of the issuance staff based on expected volume of ATP transactions.

In addition to these practices that are common to most of the sites we visited, even tighter procedures have been inplemented by a few sites:

- One contract issuance agent requires teller reimbursement for inventory shortages. In one government-operated issuance site, inventory errors may result in disciplinary action.

- Cashiers in one site are trained comprehensively to reduce loss caused by cashier negligence, client misrepresentation, and falsification of authorization documents.

- Security guards or police provide escort service at some sites during transfer of coupons between the issuance site and daily storage.

2. LOSSES ARE LOWER IN PROJECT AREAS THAT USE MAIL ISSUANCE SELECTIVELY THAN IN THOSE WHERE MAIL IS THE PRIMARY ISSUANCE SYSTEM

Mail loss is measured by mail replacements issued, as reported on line 7e of FNS 259. This report is required of all FSP agencies that do any mail issuance.

Table 2, below, displays average mail loss for study sites using various system types. By definition, sites listed as Direct Mail sites use mail as the primary issuance method, and sites identified with one of the four other system types use mail, if at all, as a secondary issuance method.

Table 2

Use Of Mail Issuance	Dollar Loss Per Mail Issuance (4/82 - 3/83)
Primary System For Study Sites	$0.61
Secondary System For Study Sites	0.23
National Average	$0.75

The Direct Mail sites we visited have somewhat lower mail loss than the national average mail loss. This better performance is associated with the following general controls:

- Pre-sorted first class mail is used; this mail is sorted by zip code and sealed in locked mail pouches or in banded trays by the FSP agency. Pre-sorting reduces the number of times an envelope is handled after it leaves the FSP agency, and sealing conceals the contents of the bags or trays as they move through a Postal Service central processing hub.

- In situations where the potential for mail loss is high or where significant losses have already occurred, delivery services that require documentation of receipt—certified mail or registered mail, as appropriate—are used.

- FSP agency staffs conduct routine and aggressive analyses of reported mail losses and returned mail, and they work closely with Postal Service officials to eliminate problems identified in these analyses.

Program agencies that use an issuance method other than Direct Mail ordinarily use mail selectively where the primary issuance method cannot be used or is patently more costly. These situations typically are of two types:

- Food stamp allotments are mailed to individuals who find it difficult or impossible to come to an issuance point—particularly elderly, handicapped, and geographically isolated clients.

- Food stamp allotments are mailed to households where the risk of mail loss is considered less than the risk for households in general, such as those receiving relatively small allotments or known to have secure mailboxes.

In addition to these basic steps to reduce mail loss, some FSP agencies use one or two other measures to tighten security:

- Clients who report one mail loss are placed immediately on over-the-counter or certified mail delivery for the remainder of their certification period or until the certification worker determines that the threat of loss has been eliminated. (FNS regulations require that this procedure be invoked after two losses in a six-month period, but these FSP agencies have adopted a more stringent rule.)

- Measures are taken to ensure that losses do not occur during transportation of mail from the FSP agency to the post office—typically either use of armored car delivery or requiring postal workers to sign a receipt for each shipment.

3. EFFECTIVE ATP SYSTEMS USE SEVERAL PRACTICES TO REDUCE LOSSES BELOW NATIONAL AVERAGES

ATP loss is operationally defined as the number and benefit value arising from unmatched ATPs and is reported on line 10 of FNS 46. Average loss for the ATP issuance sites we visited are shown in Table 3.

Table 3

Use Of ATP Issuance	Dollar Loss Per Transaction (4/82 - 3/83)
Primary System For Study Sites	$0.13
National Average	$0.43

A comparison of the figures in Table 3 with those in Table 2 shows that ATP loss is consistently lower than mail loss in systems that use Direct Mail as the primary issuance method. This is not surprising, because considerably tighter control over coupons is maintained in this system type than in Direct Mail systems. Furthermore, use of ATPs means that issuance workers can verify the identity of recipients—usually an impossibility in Direct Mail systems.

All the ATP sites we visited are scrupulous in observing FNS regulations that require timely processing of eligibility notifications, that limit replacements to two in six months and impose a waiting period for replacements, and that require completion of an affidavit when loss is reported. All of the ATP sites we visited impose additional controls that clearly increase their effectiveness in reducing ATP loss:

- Both manual and automated data management systems are designed to expedite the processing of household eligibility data.
- Accuracy and integrity of eligibility data is verified through a variety of computerized edits.
- Signatures of recipients are compared at time of issuance with signatures maintained at the issuance point or on Food Stamp identification cards. In some areas, the identification card bears the recipient's photograph. In others, recipients are required to present an additional form of personal identification containing the individual's photograph.

The most effective ATP systems use still other techniques to tighten security even more:

- The number of ATPs processed manually is matched exactly against the number of blank ATP cards drawn from inventory, thus minimizing the possibility of fraudulent use of blank ATP cards. Access to blank ATP cards typically is limited, and some sites print recipients' identification card serial numbers on ATP cards when they are processed.
- Non-routine and replacement ATPs are generated in some sites by computer only. This reduces the possibility of transacting duplicate replacements, a major source of loss in ATP systems.
- Clients reporting one ATP loss are placed immediately on alternate delivery (e.g., certification office pick-up) for the remainder of the certification period or until the certification worker determines that the threat of loss has been eliminated.

4. HIR, DIRECT DELIVERY, AND ON-LINE SYSTEMS HAVE INHERENT ADVANTAGES IN CONTROLLING AUTHORIZATIONS

A major vulnerability to loss occurs when ATPs or coupons are mailed to recipients. This vulnerabilty is eliminated in systems in which authorization documents are kept at issuance points and coupons are deliverd to recipients in person. Although there are no routinely generated data on unmatched issuances for the three system types that have this characteristic—HIR, Direct Delivery, and On-Line systems—each provides greater physical control over authorization. The limited data that are available indicate that two of these (On-Line and Direct Delivery) control loss due to unauthorized issuance more effectively than Direct Mail and ATP systems.

HIR systems use a permanent authorization and issuance record document that is kept in the FSP agency office and thus is not exposed to external loss. Because recipients must come to a central office, however, this system type is suitable only in project areas that are geographically compact. This means that HIR systems are used to serve relatively small client populations; issuance workers in such systems recognize many recipients, and the risk of fraud is further reduced.

Direct Delivery systems transfer monthly paper authorization documents to issuance locations only rather than households directly. This facilitates much tighter physical security in the transfer activity.

On-Line systems eliminate the use of paper authorization documents entirely.

opportunity for fraudulent alteration of authorization records, and facilitates rapid updating of the authorization records.

5. DIFFERENCES IN THE ADMINISTRATIVE COST OF ISSUANCE OPERATION ACROSS SYSTEM TYPES ARE NOT STATISTICALLY SIGNIFICANT

Conceptually, the administrative costs of the issuance function are considered to consist of four major components: (1) salaries and fringe benefits of FSP agency personnel responsible for issuance activities, (2) automated data processing costs associated with processing FSP master file data, (3) fees paid to contract issuance agents, and (4) miscellaneous direct costs such as postage, transportation, and security costs. Accounting allocation methods vary so greatly among FSP agencies, however, that costs associated with these individual categories are much

than those of the other system types, and that minor savings that may be realized in those components are offset by the increased costs of postage and security. Thus, the total administrative costs of Direct Mail project areas are not significantly lower.

Direct Delivery project areas have the lowest administrative cost among the sites visited. Absence of postage costs for ATP delivery to clients appears to be a substantial factor in the difference. However, the small number of Direct Delivery sites in the study and the variability of administrative costs among them limit both the precision and the overall applicability of the estimate.

On-Line project areas appear to have the highest administrative costs. ADP operating costs account for a major part of the difference. As suggested above, however, this difference may be attributable as much to idiosyncratic conditions as to inherently greater true resource requirements.

In Table 4, administrative costs associated with each system type are also compared to the weighted average for all good practice sites. This comparison reinforces the picture of similarity rather than sharp differences in administrative costs among system types.

6. THERE ARE SEVERAL OPTIONS FOR IMPROVING ISSUANCE OF FOOD STAMPS

When both average issuance loss and administrative cost are considered, the Direct Delivery and On-Line systems appear to perform particularly well. Adoption of either approach should be considered where a State or local FSP agency has the financial and other resources necessary for conversion. The resources required for implementing an On-Line system are particularly sensitive to the existing computer environment in the governmental jurisdiction involved; in highly automated situations, the required incremental resources may not be large, but in a relatively unsophisticated environment, start-up costs may be prohibitive.

Where conversion to a Direct Delivery or On-Line system is not feasible, adoption of practices described earlier in this chapter may yield significant improvements in most ATP systems and, to a lesser degree, in Direct Mail systems. Exhibit VII-1 provides a guide to the frequency with which various controls are used in each system type. Those strategies used across types have not only the broadest applicability, but the most promise for success. Similarly, within any one system category, the more frequently a control is used, the more likely it is to be a prerequisite for effective issuance. Chapters Two through Six provide the details of how and where each control is implemented.

Because the current national loss reporting system does not separate losses by system type, it is not possible to project the maximum savings that might be realized through system improvements in all project areas. A rough indication is provided, however, by calculating what savings would ensue if the average losses of all project areas were reduced to the level of the "good performers" we observed in this study.

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EXHIBIT VII-1(1)

GUIDE TO ISSUANCE CONTROLS
BY SYSTEM TYPE

VULNERABILITY	ISSUANCE SYSTEM PRACTICES/CONTROLS	SYSTEM TYPE				
		ATP	DIRECT DELIVERY	ON-LINE	DIRECT MAIL	HIR
Delayed Processing Of Household Eligibility Data	__ One Day Turnaround Of Notification Data	◉	●	●	◉	●
	__ Batch Control System For Notification Data	●	●	●	●	●
	__ Separate Clerical Control Unit	◉	○	◉	○	○
	__ Processing Deadlines/Production Cutoff Date	●	●	●	●	●
	__ Procedure For Last Minute Case Changes	●	●	●	●	●
	__ Elimination Of Processing Backlogs	●	●	●	●	●
	__ Prioritization Of Processing Case Updates	●	●	●	●	●
	__ On-Line File Updates	○	○	●	◉	○
Inaccurate Or Incomplete Processing Of Household Eligibility Data	__ Specification Edits Computerized	●	●	●	●	○
	__ Logical Edits Computerized	●	●	●	●	○
	__ Automated Benefit Calculation	◉	◉	◉	◉	○
	__ Automated Benefit Verification	●	●	●	◉	○
	__ Access To Household Master File Restricted	●	●	●	●	●
Loss Or Theft Of Authorization Documents	__ ATPs Handled As Controlled Documents	●	●	○	○	○
	__ Limited Access To Blank ATPs	●	●	○	○	○
	__ Serialized ID Number On ATP Cards	◉	○	○	○	○
	__ Computer Controlled Replacements	◉	◉	○	○	○

* See Key On Page Five.

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EXHIBIT VII-1(2)

VULNERABILITY	ISSUANCE SYSTEM PRACTICES/CONTROLS	SYSTEM TYPE				
		ATP	DIRECT DELIVERY	ON-LINE	DIRECT MAIL	HIR
Loss Or Theft Of Authorization Documents (Continued)	___ Limit Of 2 Replacements Within 6 Months	●	●	○	○	○
	___ Replacement Waiting Period Of 5 Days (Minimum)	●	●	○	○	○
	___ Affidavit Signed By Client For Replacement	●	●	○	○	○
	___ Delivery Of Replacements Only By Direct Methods	◉	◉	○	○	○
	___ Direct Delivery Of ATPs By Issuance Staff Or Vendors	○	●	○	○	○
	___ Assignment Of Issuance Location	○	●	○	○	◉
	___ Electronic (On-Line) Authorization	○	○	●	○	○
	___ Back-Up Computer System To Eliminate Down Time	○	○	◉	○	○
	___ Restricted Issuance Procedures During Down Time	○	○	◉	○	○
	___ Verification Of Eligibility Listings To ATPs	●	●	○	○	○
	___ Post-Verification (Prior To ATP Mailing/Delivery)	◉	●	○	○	○
	___ Limited Access To HIR Cards	○	○	○	○	●
	___ HIR Cross Reference File	○	○	○	○	●
	___ Documented Status Changes	○	○	○	○	●
	___ Separation Of OTC And Mail HIR Cards	○	○	○	○	●
Client Misrepresentation/ Fraud Resulting In Overissuance	___ Charge Back Policy (Vendors/Cashiers Liable)	◉	●	○	○	○
	___ FSP Issuance Monitor Function	◉	●	○	○	○
	___ Signature Comparison	●	●	●	○	●

* See Key On Page Five.

EXHIBIT VII-1(3)

VULNERABILITY	ISSUANCE SYSTEM PRACTICES/CONTROLS	SYSTEM TYPE				
		ATP	DIRECT DELIVERY	ON-LINE	DIRECT MAIL	HIR
Client Misrepresentation/ Fraud Resulting In Overissuance (Continued)	__ Photo ID	◉	◉	◉	○	○
	__ Predesignated Authorized Representative	◉	◉	◉	○	●
	__ Use Of Regiscope Camera	◉	○	○	○	○
	__ Address Verification (From Master File)	○	○	◉	○	○
Cashier Error Resulting In Overissuance	__ Double Counting Of Coupons	●	◉	●	●	●
	__ Dual Verification Of Mail Allotments	○	●	●	●	●
	__ Pre-Benefit Transfer Coupon Book Separation	●	◉	●	●	●
	__ Staggered Issuance	◉	●	●	●	◉
	__ Dual Name/ID Number Comparison	●	●	●	○	●
	__ Pre-Printed Coupon Book Combinations By Allotment	●	◉	●	●	●
	__ Standardized Allotment Ranges By Household Size	◉	○	○	○	○
	__ Cashier Training Program	◉	○	○	○	○
	__ Pre-Packaged Allotments	○	◉	○	○	○
	__ Automated Coupon Stuffing	○	◉	○	◉	○
Loss Or Theft Of Mail Issuance Allotments	__ Pre-Sorted/Sealed First Class Mail (Routine Delivery)	◉	◉	◉	●	○
	__ Certified Mail Used (Alternate Delivery)	◉	◉	◉	◉	○
	__ Registered Mail Used (Alternate Delivery)	○	○	○	◉	○
	__ Mail Restricted To Special Client Populations	◉	◉	◉	○	○

* See Key On Page Five.

EXHIBIT VII-1(4)

VULNERABILITY	ISSUANCE SYSTEM PRACTICES/CONTROLS	SYSTEM TYPE				
		ATP	DIRECT DELIVERY	ON-LINE	DIRECT MAIL	HIR
Loss Or Theft Of Mail Issuance Allotments (Continued)	___ Dollar Value Restriction	○	○	◉	○	◉
	___ Mail Issuance Interview (At Certification)	◉	◉	◉	◉	◉
	___ Alternate Delivery After One Loss	◉	◉	◉	◉	◉
	___ Limit Of 2 Replacements Within 6 Months	●	●	●	●	●
	___ Replacement Waiting Period Of 5 Days (Minimum)	●	●	●	●	●
	___ Affidavit Signed By Client For Replacement	●	●	●	●	●
	___ Delivery Of Replacements Only By Direct Methods	◉	◉	◉	◉	◉
	___ Analysis Of Mail Loss And Returns	●	●	●	●	●
	___ Close Coordination With Postal Officials	●	●	●	●	●
Theft From Coupon Storage Or Working Inventory	___ Off-Site Bulk Storage	◉	○	○	○	●
	___ Limited Access/Dual Verification	●	●	●	●	●
	___ Security Alarm System	◉	●	◉	●	◉
	___ Separate Working Inventories By Cashier	●	●	●	●	●
	___ Security Escorts During Coupon Transfer	◉	●	●	●	◉
	___ Security Guards On-Site	◉	◉	◉	◉	◉
	___ Combination Lock Safes	●	●	●	●	●
	___ Restricted Access To Issuance Areas	●	●	●	●	●

* See Key On Page Five.

EXHIBIT VII-1(5)

VULNERABILITY	ISSUANCE SYSTEM PRACTICES/CONTROLS	SYSTEM TYPE				
		ATP	DIRECT DELIVERY	ON-LINE	DIRECT MAIL	HIR
Delayed Or Incomplete Reconciliation Of Issuances	__ Monthly Reconciliation Of Issuances To Master File	◉	◉	○	●	○
	__ Follow-Up On Reconciliation Exceptions	◉	●	●	○	○
	__ Immediate (On-Line) Update Of Master File	○	○	●	○	○

KEY

- ⊙ Practice Used By A Few Project Areas
- ◉ Practice Used By Most Project Areas
- ● Practice Used By All Project Areas
- ○ Practice Not Used

Potential unit savings are indicated in Table 5 below.

Table 5

	Inventory Loss Per Household	Mail Loss Per Issuance	ATP Loss Per Issuance
National Average	$0.05	$0.75	$0.43
Good Performers	0.01*	.40**	0.13***
Unit Potential For Loss Reduction	$0.04	$0.35	$0.35

Potential national savings based on these unit reductions are on the order of $30 million, as demonstrated in Table 6 below.

Table 6

Type Of Issuance Loss	Unit Potential For Loss Reduction		Annual Number Of Households/ Issuances (4/82-3/83)	Aggregate Potential For Loss Reduction
Inventory	$0.04	x	93,625,395 Households =	$ 3,745,016
ATP	0.30	x	57,720,492 ATP Transactions =	17,316,147
Mail	0.35	x	26,713,634 Mail Issuances =	9,349,772
TOTAL				$30,410,935

* * * * *

Improving issuance practices or converting to alternative system types will require considerable time and commitment of FSP staff in both certification and issuance activities. This effort will be accompanied by related investments in staff time for implementing new procedures, equipment, computer programs, and the like. As discussed earlier, the costs of these elements can be determined only on a program-by-program basis. Further, programs may find that "good" practices

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* All study sites

** All study sites using mail as either a primary or secondary method of benefit delivery

*** ATP study sites

may not be cost effective in some project areas. It is clear, however, that the opportunity for reducing the total cost of issuance is substantial. Two characteristics shared by the good performers in the study were the diligence of FSP managers in seeking these opportunities and their ability to direct conversion to improved systems.

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APPENDIX A(1)

ESTIMATED DOLLAR VALUE OF STATE ISSUANCE
BY ISSUANCE TYPE AS OF JANUARY 1982*

REGION	NUMBER OF PROJECT SITES	ISSUANCE TYPE (1) ATP	(2) DIRECT MAIL	(3) DIRECT DELIVERY	(4) HIR	(5) ON-LINE
NORTHEAST						
Connecticut	8	6,480,648				
Maine	1		4,136,711			
Massachusetts	6	16,384,853				
New Hampshire	1		2,395,144			
Rhode Island	1	3,440,876				
Vermont	1		1,690,341			
New York	58	76,302,302	29,505			643,792
	76	102,608,679	10,251,701			643,792
		(90.5%)	(9.0%)			(0.5%)
MID-ATLANTIC						
Delaware	3	2,303,646				
District of Columbia	1	4,064,919				
Maryland	24	9,773,505	5,000,754			
New Jersey	21	24,423,706				
Pennsylvania	47	56,859,273		20,116,326		
Virginia	124	8,688,626	8,637,350		983,703	
West Virginia	1		15,428,447			
Puerto Rico	11	74,958,980				
Virgin Islands	2				1,850,000	
	254	181,074,635	29,066,351	20,116,326	2,833,703	
		(77.7%)	(12.5%)	(8.6%)	(1.2%)	
SOUTHWEST						
Arkansas	75		10,029,548		2,000,000	
Louisiana	64	23,532,385				
New Mexico	31		2,076,414	815,569		4,667,592
Oklahoma	77	1,388,437	5,553,746			
Texas	334	49,592,159	1,704,674			
	501	74,512,981	19,364,382	815,569	2,000,000	4,667,592
		(73.5%)	(19.1%)	(0.8%)	(2.0%)	(4.6%)
MIDWEST						
Illinois	102	12,090,624	3,498,958	30,000,000		
Indiana	92	17,362,992				
Michigan	83	11,027,495	6,357,826			17,017,258
Minnesota	87	2,364,164	4,949,750			
Ohio	88	35,856,876	8,788,297			
Wisconsin	77		8,700,000	250,787		
	529	78,910,151	32,294,831	30,250,787		17,017,258
		(49.8%)	(20.4%)	(19.1%)		(10.7%)
SOUTHEAST						
Alabama	67	4,399,434	12,151,305			9,013,457
Florida	66		8,526,870			34,099,481
Georgia	199	18,708,588	6,692,582		193,871	
Kentucky	120		19,445,551	5,586,852		
Mississippi	82	1,725,840	7,600,275		8,995,866	
North Carolina	100	14,599,589	8,289,831		693,480	
South Carolina	46	14,583,046	3,353,856			
Tennessee	95	10,832,370	15,818,151			
	735	64,848,867	81,876,421	5,586,852	9,883,218	43,112,938
		(31.6%)	(39.9%)	(2.7%)	(4.8%)	(21.0%)

* Estimates of dollar value of issuance by system type provided by PSP State agencies.

APPENDIX A(2)

REGION	NUMBER OF PROJECT AREAS	ISSUANCE TYPE (1)	(2) DIRECT [illegible]	(3) DIRECT [illegible]	(4) [illegible]	(5) [illegible]
MOUNTAIN PLAINS						
Colorado	54	2,347,875			4,400,754	
Iowa	99		6,699,503			
Kansas	105	104,741	4,180,929			
Missouri	115	7,563,025	8,193,278			
Montana	55	1,396,181	592,090			
Nebraska	90		2,778,516			
North Dakota	51	102,128	922,253		18,821	
South Dakota	65	867,234	867,283			
Utah	13		1,734,567			
Wyoming	1		607,073	57,600		
	648	12,381,184	26,575,492	57,600	4,419,575	
		(28.5%)	(61.2%)	(0.1%)	(10.2%)	
WESTERN						
Alaska	1		2,659,973			
Arizona	14		9,782,975			
California	58	39,680,969	13,861,160	108,715	706,647	
Hawaii	4	6,044,483				
Idaho	44	285,344	2,568,096			
Nevada	17	33,816	1,657,003			
Oregon	1	223,597	10,956,256			
Washington	39	4,241,775	8,483,549			
Guam	1	1,544,516				
	179	52,054,500	49,969,012	108,715	706,647	
		(50.6%)	(48.8%)	(0.1%)	(0.7%)	
	NATIONAL TOTAL	566,391,017	249,398,390	56,935,849	19,843,143	65,411,580
		(59.1)	(26.0%)	(6.0%)	(2.1%)	(6.8%)